

Edited by *Yu Guangyuan*

CHINA'S SOCIALIST MODERN- IZATION



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FOREWORD

This book is intended to inform readers abroad about the economic construction in China's drive for modernization. When I discovered from my contact with colleagues abroad that they lacked material published in their languages on China's economy, I suggested this book to the Foreign Languages Press and set about pooling the contributions of a number of economists. The result is a book which records the changes China made from 1977 to 1980 in economic construction policy and the progress achieved during that time in various economic undertakings. I hope that in the next two or three years we will be able to publish another book of this kind, dealing with economic development since 1981.

In October 1976, the historic event of smashing the Jiang Qing counter-revolutionary clique took place. In the following year, the ten-year "cultural revolution" (1966-1976) was officially declared over and the objectives of the country's modernization programme were reaffirmed. So it is appropriate to make 1977 the beginning year for our report on China's economic construction. Of all the events that took place in 1977-1980, the Third Plenary Session of the 11th Central Committee of the Chinese Communist Party which was held in December 1978, was — as is evident throughout the book — of decisive importance to China's economic development.

Our aim is to present to our readers an objective picture. Although individual contributors, of course, have their own viewpoints, they have given a faithful account of economic development in China.

This book originally was to have to come off the press in

1981. As editor, I would like to apologise to my readers for delays in meeting deadlines.

Yu Guangyuan*

September 12, 1982

* Yu Guangyuan is a noted economist in the People's Republic of China.

Chapter I

**AN OUTLINE OF ECONOMIC
DEVELOPMENT (1977-1980)**

by Li Chengrui and
Zhang Zhuoyuan

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THE "cultural revolution" that took place between May 1966 and October 1976 caused serious damage to China politically and economically. With the downfall of the "gang of four" in October 1976, China's socialist construction entered a new historical period. Since then, there have been major changes in the national economy. This chapter offers a brief factual account of the development of China's economy in the four years 1977-80, and thereby attempts to answer some questions of general concern.

I. THE DAMAGE SUFFERED BY THE ECONOMY DURING THE "CULTURAL REVOLUTION" (May 1966-October 1976)

In reviewing the growth of China's economy in the 1977-80 period, we must first examine the changes that took place in the economy during the previous ten-year "cultural revolution" and the economic conditions and problems immediately after October 1976.

1. RAPID POPULATION INCREASES AND SLUGGISH ECONOMIC GROWTH

First we should look at the changes in China's population and national income in this decade. It must be noted that statistical research was seriously undermined during the ten-year upheaval, so that the available statistics are not wholly reliable, and some figures are inflated. Nevertheless, they can still indicate basic trends and special characteristics.

The decade witnessed a very rapid population growth. The rate of increase in 1966 was 2.3 per cent, already a fairly high figure. After the "cultural revolution" began, the population

growth rate went up further, since all government agencies including family planning agencies were wholly or partially paralyzed. A total of 105.73 million people were added in the five years 1967-71, averaging more than 20 million annually and registering a yearly growth rate of 2.7 per cent. The rate was gradually lowered after 1972 thanks to the resumption and intensification of family planning, dropping from 2.3 per cent in 1972 to 1.4 per cent in 1976. Nevertheless, because of the large base the population increase was still nearly 17 million a year. In all, a population of 190 million was added in this decade, equivalent to the combined populations of Japan and France. China's population grew from 742.06 million in 1966 to 932.67 million in 1976*, with an average annual growth rate of 2.3 per cent.

In this same period, our economy developed along a zigzag course marked by three major crises and two periods of recovery. The first crisis occurred in 1967-68. At that time, most of the leaders of the Party and government agencies and enterprises at all levels nationwide were under investigation, and production was in a state of anarchy. As a result, the total output value in industry and agriculture fell by 9.6 per cent in 1967 and by a further 4.2 per cent in 1968. Thanks to persistent struggles by Premier Zhou Enlai, other leaders and the masses, order was restored to a certain extent in society and in production, so that production recovered and developed in the five years between 1969 and 1973. In these five years the total output value in industry and agriculture rose by an average annual rate of 14.8 per cent (calculated on the basis of comparable prices). The rate of growth was fairly rapid except in 1972 when agricultural output dropped owing to bad weather. The second crisis took place in 1974 when the "gang of four", who partially usurped state power under cover of the confusion caused by the "cultural revolution", launched a political movement to criticize Confucius, which was actually

* The national figures in this article do not include figures for Taiwan.

directed against Zhou Enlai and other leaders. Consequently, the rate of increase in the total industrial and agricultural output value fell to 1.4 per cent, the net industrial output value showing a decline of 0.9 per cent compared with the previous year. When Deng Xiaoping took charge of the central administration in 1975 the economy began to revive, and total industrial and agricultural output value rose by 11.9 per cent. Before long, a third crisis occurred at the end of 1975 when the "gang of four" launched a movement "against the Right deviationist attempt to reverse past verdicts", designed to overthrow once again the large numbers of cadres who had returned to work. The damage this time was even more serious. The rate of increase in the total industrial and agricultural output value fell to 1.7 per cent, with a drop of 5.3 per cent in net industrial output value and there was a big deficit in the state budget.

On the whole, the growth in the national economy was sluggish in this decade. On the basis of comparable prices, the total industrial and agricultural output value in this period increased by an average annual rate of 7.1 per cent, much lower than the 10 per cent for the years 1952-66. The additions to the national income were mostly used to offset consumption by the new-born. Per capita national income* grew by a little over 2 per cent a year. Considering that some figures were inflated, in particular by the inclusion of a considerable number of unsaleable and substandard products in the output value and national income, there was practically no growth in per capita national income but even in some years a decline.

2. IMBALANCES WITHIN THE ECONOMY

It is a proven fact that given the same economic level, different economic structures will lead to substantial differences

* National income is here defined as the net output value in the five areas of material production, namely, industry, agriculture, building, transport and commerce. It does not include the income from non-material areas.

in economic strength and living standards. Differences in economic structure are represented in the table below:

Composition of the National Income in 1966-76 (%)

| | 1966 | 1976 |
|--|------|------|
| Total national income: | 100 | 100 |
| Industry | 38.2 | 43.3 |
| Agriculture | 43.6 | 41 |
| Building | 3.7 | 4.9 |
| Transport | 4.2 | 3.8 |
| Commerce | 10.3 | 7 |
| Proportion in Net Industrial Output Value: | | |
| Light Industry | 47.2 | 40.4 |
| Heavy Industry | 52.8 | 59.6 |

From this table we can see that the share of agriculture declined from 43.6 per cent in 1966 to 41 per cent in 1976 while that of industry rose from 38.2 to 43.3 per cent. If the net industrial output value is taken as 100, then the share of light industry dropped from 47.2 per cent in 1966 to 40.4 per cent in 1976 while that of heavy industry grew from 52.8 to 59.6 per cent. In heavy industry, energy was weak and the machine-building weaker and heavy industry was over-emphasized (within heavy industry, energy was weak and the machine-building industry developed out of proportion). The building industry's share in the national income rose from 3.7 per cent in 1966 to 4.9 per cent in 1976, mainly due to the big increases in capital construction investment. Most of the investment went to heavy industry, and the portion going to agriculture and light industry decreased. The fall in investment earmarked for civilian projects was even more drastic. The construction of new housing in many places was not enough to make up for

the loss of old housing. Transport dropped from 4.2 per cent in 1966 to 3.8 per cent in 1976, and commerce from 10.3 per cent to 7 per cent. The transportation and circulation of commodities was slowed even further, and transport and communications became a particularly weak link in the national economy.

The irrational structure of the national economy can be seen even more clearly from changes in the output of major industrial and agricultural products. Compared with 1966, the production of coal in 1976 rose by 91.7 per cent with an output of 483 million tons, representing an annual average rise of 6.7 per cent; crude oil increased by 499 per cent, with an output of 87.16 million tons, representing an annual average rise of 19.6 per cent; steel increased by 33.5 per cent, with an output of 20.46 million tons, representing an annual average rise of 2.9 per cent; machine tools increased by 186 per cent, with 157,000 tools, representing an annual average rise of 11.1 per cent; chemical fertilizer for rural use increased by 117.7 per cent, with an output of 5.244 million tons (based on 100 per cent effectiveness), representing an annual average rise of 8.1 per cent. The output of these producer goods except steel rose by a big margin. But with respect to consumer goods, the production of cotton cloth rose only by 20.9 per cent, with an output of 8.84 billion metres, representing an annual average rise of 1.9 per cent; grain rose only by 33.8 per cent, with an output of 286.3 million tons, representing an annual average rise of 3 per cent; the number of pigs in stock rose by only 48.3 per cent, reaching 287.25 million head at the end of the year, representing an annual average rise of 4 per cent; and the production of cotton and oil-bearing crops fell instead of growing. Although the output of producer goods increased fairly rapidly, it could not propel the rapid growth of consumer goods production for several reasons: the structure of heavy industry was irrational; processing industries, especially the machine-building industry, grew too fast; many producer goods were unsaleable and substandard; unit consumption (energy, raw

and other materials) in heavy industry was too high; and most of the newly added energy and other heavy industrial products could only "serve" heavy industry itself. Of course, there were also other causes. The slow expansion of consumer goods production also impeded the production of producer goods.

The irrational structure of the national economy added much to the difficulty of providing jobs for new additions to the labour force. The large numbers of people born in the early 1950s began to reach working age during the "cultural revolution", especially in its later period. In state-owned enterprises, the equipment needed by one worker costs approximately 12,000 yuan in heavy industry, but it requires only 6,200 yuan in light industry, and several hundred yuan in commerce or service industries. One-sided emphasis on heavy industry naturally reduced job opportunities. Moreover, the long-term practice of state responsibility for providing jobs blocked the opportunity for workers to seek employment themselves collectively or individually, thus reducing the ways of solving the problem of employment. By 1976, the number of people waiting for jobs in the cities and towns exceeded 10 million, despite the fact that more than 8 million youths went to work in the countryside in those ten years (most of them did not stay there for long).

In short, the disproportions became more serious during these ten years: the capital goods "leg" became longer while the consumer goods "leg" became much shorter. Thus, the already biased and uncoordinated structure of the economy became even more biased and uncoordinated.

3. NEGLECT OF LONG-OVERDUE IMPROVEMENTS IN LIVING STANDARDS

Along with the over-emphasis on heavy industry in the economic structure, the rate of accumulation was too high in the allocation and use of the national income.

Many projects stopped or slowed down during the first three years of the "cultural revolution". The targets for investment in national construction for 1967, 1968 and 1969 were therefore not fulfilled, forcing the rate of accumulation to drop temporarily. The rate of accumulation in those three years averaged 21.9 per cent annually. By 1970, when order had been restored in society and production, there was also a revival of long-held "Left" concept of pursuing high speed, high targets and high accumulation in total disregard of the actual capacity of national resources. The result was a big increase in the share of accumulation in the national income. The accumulation rate was in excess of 30 per cent throughout the seven years 1970-76, with a record high of 34.1 per cent in 1971. Judging from actual experience in three decades, a 25 per cent accumulation rate is appropriate to the level of Chinese economic development (the average rate during the First Five-Year Plan period being 24.2 per cent). An accumulation rate in excess of 30 per cent is obviously too high.

In addition, the proportion of capital construction investment going to productive projects was too high and that going to non-productive projects was too low. Experience in the three decades shows that it is appropriate to use 60-70 per cent of the total capital construction investment for productive projects and 30-40 per cent for non-productive projects. During the First Five-Year Plan period, 71.7 per cent of investment went to productive projects and 28.3 per cent to non-productive projects. During the ten-year "cultural revolution", productive projects accounted for 87.3 per cent of the investment and non-productive projects merely 12.7 per cent. As a result, housing, education, culture, health, environmental protection and other fields were starved of funds, seriously affecting the quality of life in China.

An exceedingly high rate of accumulation not only over-extended the scope of capital construction and lowered the results from investment, but also cut down on consumption. The following table shows changes in the average per-capita

amount of selected major goods consumed by the people over the ten years:

**Average Per-capita Amount of Major Goods Consumed
in 1966 and 1976**

| | 1966 | 1976 |
|--------------------|-------|-------|
| Grain (kg) | 190.5 | 191.5 |
| Vegetable oil (kg) | 1.75 | 1.6 |
| Pork (kg) | 7.05 | 7.25 |
| Cotton Cloth (ft) | 20.9 | 24.8 |

Note: Grain here is husked grain for sale.

The table shows that the amount of grain, pork and cloth consumption rose very little in the ten years and consumption of vegetable oil fell. If the 1976 figures are compared with levels of consumption in the years since 1949, per capita grain consumption that year was lower than the 1952 level (197.5 kg), or 13 kg less than the record 204.5 kg in 1956; vegetable oil consumption was lower than the 1951 level (1.65 kg), or 0.95 kg less than the record 2.55 kg in 1956; and cotton cloth consumption was lower than the 1956 level (28.3 ft), or 7.1 ft less than the record 31.9 ft in 1959.

No accurate surveys were made of housing conditions in this period. A rough survey of 182 cities in 1978 shows that the urban residents had a per capita average of 3.6 square metres of housing space, 0.9 square metres less than the 4.5 square metres in early post-Liberation days. The 1978 figure may be somewhat too low, but it still gives a general idea of the housing shortage. Although the total output value and national income maintained a certain growth rate in the ten years, people did not benefit from it. What merits more attention is the fact that the allocation of funds was not adequate to develop educational and cultural undertakings. Instead, serious damage was done to education and culture, where training was

put off for nearly a whole generation. Consequently, many professions and trades now suffer from serious shortages of young trained personnel.

4. DEFICITS IN THE STATE BUDGET AND THE DECLINE IN ECONOMIC RETURNS

During the "cultural revolution", there was on the one hand a considerable increase in fiscal revenues, reflecting the growing scope of the economy; on the other hand, expenditures increased even more. Four of the ten years saw deficits: a deficit first occurred in 1967, owing to a nationwide turmoil, and it recurred for three successive years in 1974, 1975 and 1976. Expenditures surpassed revenues by a total of 1.9 billion yuan in the ten years, which means that the overall state budget for the decade as a whole was in the red. These are the book figures; but the actual deficits far exceeded 1.9 billion. Revenues included profits and taxes from state-owned enterprises whose output value embraced their substandard goods or rejects purchased by state supplies or commercial departments — in fact yielding a false income. Expenditure based on this false income was a latent deficit. At the same time, forced reduction in consumption and cutbacks on spending that ought to have been effected would have to be compensated for later, and this also was a hidden danger that would surface as a deficit. These problems gradually came into the open after October 1976.

The cutback in living standards and the deficits in state budget was, in the last analysis, closely related to declining economic returns. The total national income did grow in the ten-year "cultural revolution", but this growth was due mainly to greater investment, a greater use of manpower and the consumption of a greater amount of energy and raw and other materials, and not gained by raising economic efficiency or returns.

Take the state-owned industrial enterprises that keep independent business accounting:

Changes in Economic Returns in 1966-76 of Industrial Enterprises Keeping Independent Business Accounting (measured in yuan)

| | 1966 | 1976 |
|---|------|------|
| Taxes and profits per 100 yuan of capital | 34.5 | 19.3 |
| Taxes and profits per 100 yuan of net fixed assets | 46.6 | 29 |
| Profits per 100 yuan of total output value | 21.9 | 12.6 |
| Output value per 100 yuan of gross fixed assets | 110 | 96 |
| Circulating fund per 100 yuan of total output value | 23.5 | 36.9 |

According to this table, taxes and profits realized from every 100 yuan of capital fell from 34.5 yuan in 1966 to 19.3 yuan in 1976, a drop of 44.1 per cent; taxes and profits realized from every 100 yuan of net fixed assets declined from 46.6 to 29 yuan, a decrease of 37.8 per cent; profits realized from every 100 yuan of total industrial output value dropped from 21.9 to 12.6 yuan, a fall of 42.5 per cent; but the circulating fund used for every 100 yuan of total output value grew from 23.5 to 36.9 yuan, a rise of 57 per cent. This means that large quantities of products were substandard or rejects that failed to meet social needs. The sharp decline in economic returns was the outcome of the irrational economic structure and serious imbalances in the national economy, and also the result of the confusion following the damage to the enterprise management system.

5. THE ECONOMY ON THE BRINK OF COLLAPSE

The year 1976 saw China's national economy in a desperate situation.

It was in this year that a movement was launched against the "Right deviationist attempt to reverse past correct verdicts" in order to overthrow for a second time a large number of cadres who had just been reinstated. Consequently, production that had just been restored to order in 1975 was plunged into chaos again. Railway transport was the first to suffer. Traffic was jammed first at Zhengzhou, the country's biggest railway hub and communications centre, and then at the other centres — Xuzhou and Bengbu in the southeast, Wuhan and Nanchang in the central-south, Guiyang and Kunming in the southwest, and Xi'an, Lanzhou and Urumqi in the northwest, China's economic arteries suffered from acute traffic congestion. The newly reinstated administrative organs and economic management agencies were smashed once again, and fighting erupted everywhere. The major earthquake that hit Tangshan on July 28, 1976, produced a death toll of 242,000 and seriously injured another 164,000. Most of Tangshan, a key coal centre in northern China, was in ruins, and Beijing and Tianjin were also affected. This disaster further aggravated China's economic difficulties. Net industrial output value that year fell by 5.3 per cent, and steel output decreased from 23.9 million tons in the previous year to 20.46 million tons, a drop of 3.44 million tons. Fiscal expenditures exceeded revenues by 2.96 billion yuan. The destruction that year and in the preceding two years, it is roughly estimated, cost China 100 billion yuan in industrial output value, 28 million tons of steel and 40 billion yuan in revenues.

The important tasks on the economic front after October 1976 were not only to revive economic life as soon as possible and eliminate the economic evils resulting from the ten-year upheaval, but also to remove the fetters of the long-held "Left" concept of seeking quick results at all costs, rectify the serious imbalance in major sectors of the economy, reform the management system with overconcentration of power and tap the great potential of existing enterprises. In short, it was to proceed from China's actual conditions towards a steady re-

alization of socialist modernization. The course of China's economic development since 1977 is one of a gradual recognition and solution of these problems in the drive towards modernization.

II. RECOVERY AND GROWTH IN THE ECONOMY, ALONG WITH THE AGGRAVATION OF IMBALANCES (October 1976-December 1978)

In the first two years after the downfall of the "gang of four", the Party and the government concentrated their efforts on rehabilitating and developing the seriously damaged national economy. Reasonable progress was made, but the long-term imbalances in the major sectors of the economy were aggravated. Because the "Left" concept was not repudiated, these imbalances had yet to be recognized. Also, the restructuring of the economic management system was not a serious item on the agenda.

1. IMPORTANT MEASURES IN THE REHABILITATION OF THE ECONOMY

Following the downfall of the "gang of four", China took a series of important measures to rehabilitate the national economy. Chief among them were:

(1) The restoration of political stability and unity.

A struggle was launched to expose and criticize the "gang of four", violence was curbed, the "gang of four's" connections were investigated, and the power they had usurped seized back. In many areas and enterprises controlled by supporters of the "gang of four", the leadership was reorganized and public order gradually returned to normal.

(2) The reestablishment of the chain of command in production.

A struggle between attempts to undermine economic management and efforts to keep it going was a constantly recurring feature in the ten years of turmoil. In 1975, a document with the title "Some Questions Concerning the Acceleration of Industrial Development" was issued by the state planning commission under the chairmanship of a leading comrade of the State Council, proposing policies and measures for consolidating the economy and solving problems to counteract the damage caused by the "gang of four". The "gang of four" branded this document a "big poisonous weed", and publicly criticized it by name. They labelled the leading comrade in the Party Central Committee and the State Council a "traitor" as well as a "capitalist-roader". Thus, the entire national economy was further plunged into confusion. After the "gang of four" was smashed in October 1976, their damage to production was criticized, the document was reaffirmed, the authority of the agencies in charge of economic affairs was reinstated, and the chain of command in production was restored.

(3) Criticism of the "gang of four's" economic fallacies.

The "gang of four" opposed the growth of productive forces, attacking the four modernizations as "turning to capitalism" and slandering measures to improve the material and cultural life of the people as "revisionist". They objected to the principle of "to each according to his work", business accounting and aspects in socialist relations of production that basically correspond with the development of productive forces; they encouraged the reactionary egalitarianism, the theory which actually asserts that extravagance is justified, and they advocated a transfer to "communism" under conditions where the level of the productive forces was very low. To counteract the "gang of four's" attempts to vilify socialist economic policies and systems, "ten musts" in economic work were brought forward for nationwide discussions. They include the following principles: Party leadership must be strengthened; the working class must be relied on wholeheartedly; the general line for building socialism must be implemented so that social pro-

duction will grow faster and better; rational rules and regulations must be adhered to, and labour discipline strictly observed; business accounting must be correctly practised, socialist accumulation increased and production expanded, so that socialist construction will continue to prosper and the living standards will gradually improve; the socialist principle of "from each according to his ability, to each according to his work" must be adhered to; a combination of "redness" and expertise must be encouraged, and professional skills, science and technology developed for the sake of the revolution; the policy of independence, initiative and self-reliance must be adhered to; and the socialist planned economy must be upheld. At the same time, questions such as socialist distribution according to work and socialist commodity production were discussed among people doing theoretical and practical work in the economic fields. Breaking free from various erroneous ideas, they sought to explain the major questions of principle in a developing socialist economy from the Marxist viewpoints. The entire economic machine gradually resumed normal operation after some confused ideas were clarified and the Party's economic policies and regulations were reaffirmed and carried out.

(4) The revival of industry and the whole national economy through restoring railway transport and clearing the main arteries in the national economy.

The Party and government devoted great efforts to restoring transport and communication services. They started with the loading of freight waggons. In May 1975, freight was being loaded at a rate of 55,000 waggons per day, but the rate dropped to a little over 40,000 in 1976 and even to 30,000 at one point. The State Council convened a national conference on railway work in February 1977, calling for the revival and development of railway transport. Thanks to the efforts of the railway workers, the daily rate of freight loading in March surpassed the previous record for the same month, in April hit an all-time

high, and from May onwards kept at the level of more than 55,000 waggons. At the same time, the plan for inland river transport was overfulfilled in April by 10.3 per cent, and the plan for cargo handling at ports overfulfilled by 17.5 per cent, setting a new record for that month.

The turn for the better in transport and communications prompted an all-round growth of industrial production. Production plans for crude oil, coal and power were overfulfilled in March 1977. Total industrial output value in April rose by 7.9 per cent over the preceding month, and 10.8 per cent above the figure for April 1976. Seventy of the eighty major industrial products listed in the national plan showed increases in daily output in April over the previous month. In May and June, the output of 42 major products including crude oil, coal, electricity, cement and tractors topped the previous best monthly levels. Industry in the 29 provinces, municipalities and autonomous regions all reported increases, especially Henan, Guizhou, Yunnan and Zhejiang, provinces which sustained the severest damages at the hands of the "gang of four".

(5) Steps towards upgrading agriculture as soon as possible.

A conference on agriculture in December 1976 proposed the upgrading of the national economy, and also urged that agriculture be upgraded as soon as possible. The meeting called for the active participation of both the central and the local authorities and the mobilization of the masses to work with determination and energy. The first task was to upgrade agriculture and light industry and put marketing in order; at the same time, efforts were to be made to inject new life into industry as a whole by improving transport and communications, and increasing heavy industrial products such as fuel, power, petrochemicals, iron and steel. Other tasks included the movement to increase production and practise economy, the development of technical innovations, tapping potentials, lowering production costs, improving the quality of products,

raising labour productivity, contributing more to accumulation and exploiting to the full the production capacity of the existing enterprises.

(6) Mobilization for the further upgrading of industry.

A national conference on industry convened in May 1977 proposed the task of transforming China into a great, modern socialist power within a relatively short period.

Later, a document entitled the "Draft Regulations for the Management of State-Owned Industrial Enterprises for Trial Implementation" was drawn up, laying down a number of rules and regulations concerning the activities and operations of these enterprises. The draft stipulates that state-owned industrial enterprises are economic entities under the socialist ownership by the whole people. Their fundamental task, under the guidance of unified state plans, is to provide material products or labour services to society, and to produce profits and increase accumulation for the state. Their activities must centre around production and pay attention to economic results. State-owned industrial enterprises are independent producing or operating units, which practise independent business accounting and assume sole responsibility for their own profits or losses. As an interim measure, a system in which some of the profits of a base figure plus a progressive share of the excess amount are retained by the individual enterprise will be instituted, so as to link the performance of the enterprise with the material interest of its workers and staff.

(7) Stressing finance and commerce, eliminating barriers between different regions, clearing circulation channels and developing foreign trade.

Efforts were made to tackle such serious problems as the financial deficits of the last few years; the overstocking of large quantities of materials and the allocation of funds far in excess of needs, and the resultant waste; the sluggish growth of foreign trade; the shortages in supply on the home market; and the confusion in circulation channels. A conference on financial and commercial work called in July 1978 reaffirmed the policy

of "developing the economy and guaranteeing supply" and called for a full recognition of the important role financial and commercial work can play in realizing socialist modernization. It again stressed the importance of serving politics, production and the masses, opposing attempts to seclude China from the outside world, expanding foreign trade, and improving standards in financial and commercial work.

Apart from these measures, the Party and the government also paid great attention to science and technology. A national science conference in March 1978 commended scientists who had made contributions to China's science and technology and mobilized scientific and technical contingents to contribute more to the modernization of the country.

2. RECOVERY AND GROWTH IN THE ECONOMY, 1977-78

Thanks to the above measures, China's national economy made impressive progress in 1977 and 1978. The progress was chiefly manifested in the following ways:

(1) There was an increase in national income and a revival and growth in the output of major industrial and agricultural products, as shown in the tables:

National Income and Its Growth Rate

| | 1977 | 1978 |
|---|-------|------|
| National income (billion yuan) | 264.4 | 301 |
| Increase over the previous year (%) | 8.9 | 13.8 |
| Increase in industrial production (%) | 13.8 | 17.8 |
| Increase in agricultural production (%) | -1.5 | 8.6 |
| Per capita national income (yuan) | 282 | 316 |
| Increase over the previous year (%) | 7.6 | 12.1 |

Note: Figures based on prices for the indicated year.

Output of Major Industrial and Agricultural Products

| products | 1977 | | 1978 | |
|--|--------|-------------------------------------|--------|-------------------------------------|
| | Output | Increase over the previous year (%) | Output | Increase over the previous year (%) |
| Grain (million tons) | 282.75 | -1.2 | 304.75 | 7.8 |
| Cotton (million tons) | 2.049 | -0.3 | 2.167 | 5.8 |
| Three oil-bearing crops (million tons) | 3.39 | -1.7 | 4.568 | 34.8 |
| Draught animals at year end (million head) | 93.75 | -1.3 | 93.89 | 0.2 |
| Pigs at year end (million head) | 291.78 | 1.6 | 301.29 | 3.3 |
| Steel (million tons) | 23.74 | 16 | 31.78 | 33.9 |
| Pig iron (million tons) | 25.05 | 12.2 | 34.79 | 38.9 |
| Coal (million tons) | 550 | 13.9 | 618 | 12.4 |
| Electricity (billion kwh) | 223.4 | 10 | 256.6 | 14.9 |
| Crude oil (million tons) | 93.64 | 7.4 | 104.05 | 11.1 |
| Timber (million cu.m.) | 49.67 | 8.6 | 51.62 | 3.9 |
| Cement (million tons) | 55.65 | 19.2 | 65.24 | 17.2 |
| Chemical fertilizer for rural use (million tons) | 7.238 | 38 | 8.693 | 20.1 |
| Insecticides (thousand tons) | 457 | 16.9 | 533 | 16.6 |
| Metal-cutting machine tools (thousand) | 198.7 | 26.6 | 183.2 | -7.8 |
| Motor vehicles (thousand) | 125.4 | -7.2 | 149.1 | 18.9 |
| Tractors (thousand) | 99.3 | 34.7 | 113.5 | 14.3 |
| Cotton yarn (million tons) | 2.23 | 13.8 | 2.382 | 6.8 |
| Cotton cloth (billion m.) | 10.15 | 14.8 | 11.03 | 8.7 |

| | | | | |
|---|--------|------|--------|------|
| Chemical fibres (thousand tons) | 189.8 | 29.9 | 284.6 | 49.9 |
| Machine-made paper and paperboards (million tons) | 3.77 | 10.6 | 4.39 | 16.4 |
| Bicycles (million) | 7.427 | 11.2 | 8.54 | 15 |
| Sewing machines (million) | 4.242 | 16.6 | 4.865 | 14.7 |
| Wrist watches (million) | 11.528 | 21.4 | 14.108 | 22.4 |
| Cigarettes (million cases) | 12.11 | 23.3 | 11.82 | -2.4 |
| Sugar (million tons) | 1.82 | 10.3 | 2.27 | 24.7 |
| Salt (million tons) | 17.10 | 22.1 | 19.53 | 14.2 |
| Synthetic detergents (thousand tons) | 257 | 18.4 | 324 | 26.1 |

Notes:

1. Chemical fertilizer is based on 100% effectiveness.
2. Motor vehicles do not include chassis and cross-country vehicles.
3. Tractors do not include those refitted into bulldozers by enterprises.
4. A bale of cotton yarn is counted as 181.44 kg for the years up to 1977.

(2) Freight volume rose rapidly, as shown below:

Volume of Goods Moved

| Year | Total volume (million tons) | Increase over the previous year (%) | Rail freight (million tons) | Road freight (million tons) | Water freight (million tons) |
|------|-----------------------------|-------------------------------------|-----------------------------|-----------------------------|------------------------------|
| 1977 | 2,213.17 | 10.8 | 927.11 | 808.33 | 388.61 |
| 1978 | 2,463.19 | 11.3 | 1,074.92 | 851.82 | 432.92 |

(3) The commodity flow expanded, domestic and foreign trade registering a fairly big growth.

Total Volume of Retail Sales (billion yuan)

| Year | Retail sales | Increase over the previous year (%) | Consumer goods | Goods for agricultural production |
|------|--------------|-------------------------------------|----------------|-----------------------------------|
| 1977 | 141.1 | 7.1 | 115.25 | 25.85 |
| 1978 | 152.75 | 8.3 | 123.38 | 29.37 |

Total Volume of Imports and Exports (billion yuan)

| Year | Total volume | Increase over the previous year (%) | Imports | Increase over the previous year (%) | Exports | Increase over the previous year (%) |
|------|--------------|-------------------------------------|---------|-------------------------------------|---------|-------------------------------------|
| 1977 | 27.25 | 3.2 | 13.28 | 2.7 | 13.97 | 3.6 |
| 1978 | 35.5 | 30.3 | 18.74 | 41.1 | 16.76 | 20 |

In 1977, plans for imports and exports were both overfulfilled, and exports exceeded imports, giving a small surplus of foreign exchange. Plans for the purchase of export commodities for 1974 through 1976 were not met, but the purchase plan for 1977 was overfulfilled by 7 per cent. The 29 provinces, municipalities and autonomous regions all overfulfilled their purchase plans. Manufactured goods, minerals, textile and other light industrial products accounted for 63 per cent of total exports in 1977, and farm and subsidiary products 37 per

cent. China's imports and exports also made considerable gains in 1978.

(4) State revenues also grew by a substantial margin.

Total State Revenues and Expenditures (billion yuan)

| Year | Total Revenues | Increase over the previous year (%) | Total Expenditures | Increase over the previous year (%) |
|------|----------------|-------------------------------------|--------------------|-------------------------------------|
| 1977 | 87.45 | 12.6 | 84.35 | 4.6 |
| 1978 | 112.11 | 28.2 | 111.09 | 31.7 |

| | Balance | Appropriations for capital construction | Circulating funds |
|------|---------|---|-------------------|
| 1977 | 3.1 | 30.09 | 6.57 |
| 1978 | 1.02 | 45.19 | 6.66 |

Note: Circulating funds include additional allocations to the banks' credit fund.

This table shows the big increases in state revenues and expenditures for 1977 and 1978 as China began to reverse the deteriorating state budget. At the same time, it must be pointed out, revenues in these two years still included certain false income. A sizable number of substandard and unsaleable products were turned out owing to the one-sided search for quick results. As these products were purchased for market by supply and commercial departments, the enterprises which produced them were able to meet their output quota and profit quota and pay their taxes and profits to the state. But in fact,

this part of revenue was false and had to be written off sooner or later. Some economists estimate that if this false figure is deducted, there would be no surplus in the final state accounts for 1978 but there might even be a deficit, owing to the abrupt 50 per cent increase in investment for capital construction.

(5) Industrial labour productivity was raised and the average wages of workers and staff began to rise, as shown below:

**Work Force, Wages and Labour Productivity
in State-Owned Industrial Enterprises**

| Year | Work force at year end (million) | Increase over the preceding year (million) | Total wage (billion yuan) | Average wages (yuan) | Labour productivity (yuan) | Increase over the preceding year (%) |
|------|----------------------------------|--|---------------------------|----------------------|----------------------------|--------------------------------------|
| 1977 | 30.13 | 1.47 | 18.7 | 632 | 9,873 | 8.1 |
| 1978 | 30.41 | 0.28 | 20.40 | 683 | 11,085 | 12.3 |

(6) Living standards were improved.

There was a pay raise for 60 per cent of workers and staff in 1977. Most of the beneficiaries were people who had worked for many years, whose wages were low, but whose performance was quite good. Some 46 per cent of the nation's work force received a pay raise according to current wage scales, while 18 per cent received a little more because their wages were too low. Since no pay raise had been awarded for a long time, the 1977 wage raise set a post-1949 record both in the total added outlay and in the number of people affected. The raise was generally more than 10 per cent.

The per capita income of members of rural communes derived from the collective economy was 65 yuan (including

12.8 yuan in cash) in 1977 and 74 yuan (including 13.6 yuan in cash) in 1978. The amount of grain per head was 203.5 kilogrammes in 1977 and 221 kilogrammes in 1978.

(7) Developments were made in educational, cultural, health and scientific undertakings, as set out in the tables below:

Students in School (million people)

| | 1976 | 1977 | 1978 |
|---------------------------------|--------|--------|--------|
| Institutions of higher learning | 0.565 | 0.625 | 0.856 |
| Secondary technical schools | 0.69 | 0.689 | 0.889 |
| Ordinary secondary schools | 58.365 | 67.799 | 65.483 |
| Primary schools | 150.06 | 146.18 | 146.24 |

Final-year students (thousand people)

| | 1976 | 1977 | 1978 |
|---------------------------------|------|------|------|
| Institutions of higher learning | 149 | 194 | 165 |
| Secondary technical schools | 339 | 340 | 232 |

First-year students (thousand people)

| | 1976 | 1977 | 1978 |
|---------------------------------|------|------|------|
| Institutions of higher learning | 217 | 273 | 402 |
| Secondary technical schools | 348 | 366 | 447 |

**Allocations for Culture, Education, Public Health
and Sport (billion yuan)**

| Year | Total | Culture | Education | Public Health | Sport |
|------|--------|---------|-----------|---------------|-------|
| 1976 | 8.549 | 0.331 | 5.049 | 2.096 | 0.175 |
| 1977 | 9.02 | 0.318 | 5.304 | 2.229 | 0.184 |
| 1978 | 11.266 | 0.41 | 6.56 | 2.726 | 0.254 |

A general survey made in 1978 shows the following distribution of China's scientific and technical personnel then and in the past:

**Scientific and Technical Personnel in State-owned
Undertakings (thousand people)**

| | 1952 | 1960 | 1978 |
|--|-------|---------|---------|
| A. Total number | 425 | 1,968.9 | 4,345.1 |
| Engineering | 164 | 820.7 | 1,571.2 |
| Agriculture (forestry) | 15 | 167.3 | 294.2 |
| Health care | 126.4 | 517.8 | 1,275.6 |
| Scientific research | 8 | 90.5 | 310.3 |
| Teaching | 111.6 | 372.6 | 893.8 |
| B. Number of scientific and technical personnel per 10,000 head of population | 7.4 | 29.7 | 45.4 |
| Engineering | 2.9 | 12.4 | 16.4 |
| Agriculture (forestry) | 0.3 | 2.5 | 3.1 |
| Health care | 2.2 | 7.8 | 13.3 |
| Scientific research | 0.1 | 1.4 | 3.3 |
| Teaching | 1.9 | 5.6 | 9.3 |

(8) Thanks to intensification of family planning, the birth rate and natural population growth rate dropped as shown below:

**Birth Rate, Mortality Rate and Natural Growth Rate
(per thousand)**

| Year | Birth rate | Mortality rate | Natural growth rate |
|------|------------|----------------|---------------------|
| 1976 | 20 | 7.3 | 12.7 |
| 1977 | 19 | 6.9 | 12.1 |
| 1978 | 18.3 | 6.3 | 12 |

3. PROBLEMS ACCOMPANYING ECONOMIC GROWTH, 1977-78

Although China's economy made remarkable progress in 1977 and 1978, problems cropped up because the guiding principles at that time were still not free of the "Left" ideology, the serious economic difficulties and imbalances resulting from the ten-year "cultural revolution" were not taken into full account, and a renewed attempt was made to gain quick results just as the economy was beginning to recover.

This was most evident in the overhasty development plan which laid down excessively high targets.

The desire to score quick results on the basis of an over-optimistic estimation of the economic situation led to the setting of unrealistic objectives at the end of 1977. The plan envisaged three stages of development by the end of the century. In the first stage, in the last three years of the Fifth Five-Year Plan period, a nationwide, independent, fairly comprehensive industrial system and a national economic system would be established. In the second stage, during the Sixth Five-Year Plan period, all aspects of production and construction would be expanded in a fairly big way, and regional eco-

conomic systems of varying levels would be basically set up in the six major regions, each having its own characteristics and making a fairly coordinated development of agriculture, light industry and heavy industry. The present economic backwardness would be greatly transformed, material and cultural life would be greatly enriched, economic and defence capabilities would be greatly increased, and the dictatorship of the proletariat in China would be strengthened. In the third stage, up to the year 2000, agriculture, industry, national defence and science and technology would all be modernized, approaching the most developed capitalist countries in most areas of production and technology and catching up with and surpassing them in some areas, so that China's economy would take its place in the front ranks of the world. In January 1978, the slogan was raised: "Mobilize the whole Party to work hard for basic mechanization of agriculture in three years." According to a ten-year plan for economic development laid down in March 1978, grain output would reach 400 million tons and steel output 60 million tons by 1985. In each of the eight years from 1978 to 1985, the gross value of agricultural output would increase by 4-5 per cent and of industrial output by over 10 per cent. The national output of major industrial products would increase far more in these eight years than it did over the previous 28 years. State revenues and capital construction investments would both be equivalent to the total for the preceding 28 years, with plans for the state to build or complete 120 large-scale projects, including 10 iron and steel complexes, 9 non-ferrous metal complexes, 8 coal mines, 10 oil and gas fields, 30 power stations, 6 new trunk railways and 5 key harbours.

These plans and projections ignored the actual situation in China, and, along with other mistakes in leadership, aggravated the imbalance in the major sectors of the economy, reducing the results of economic activity. This was manifested in several ways.

(1) The imbalance between accumulation and consumption was further aggravated because of the attempt to continue to raise the already excessively high rate of accumulation.

As it was, one of the serious consequences of the "cultural revolution" was the disproportion between accumulation and consumption, with an excessively high rate of accumulation. However, the rate was further raised in 1977 instead of being lowered. The share of the accumulation fund in the national income was 30.9 per cent in 1976, 32.3 per cent in 1977, and further up to 36.5 per cent in 1978. The last figure is the highest since 1949 except for 1959 and 1960, and is much higher than in any of the ten "cultural revolution" years. The accumulation fund in 1977 and 1978 increased faster than the national income: the accumulation fund in 1977 rose by 11.2 per cent above the preceding year whereas the national income rose by only 7.8 per cent, and the accumulation fund in 1978 rose by 30.7 per cent whereas the national income rose by only 12.3 per cent. At the same time, the growth of the consumption fund was much slower, up only 3.9 per cent in 1977 and 8.4 per cent in 1978. If the factor of population increase is taken into account, individual consumption levels gained very little, only by 2.5 per cent in 1977 and 6.1 per cent in 1978.

Accompanying the ever-higher rate of accumulation was the further extension of capital construction to a scale beyond our national capacity. The following table shows the investment in capital construction in the state undertakings.

Investment in Capital Construction

| | 1977 | 1978 |
|--------------------------------------|--------|--------|
| Total sum (billion yuan) | 36.441 | 47.955 |
| Increase over the preceding year (%) | 1.4 | 31.6 |

| | | |
|--|--------|--------|
| State Investment (billion yuan) | 29.439 | 39.593 |
| Increase over the preceding year (%) | 0.1 | 34.5 |
| Locally collected funds (billion yuan) | 7.002 | 8.362 |
| Increase over the preceding year (%) | 6.9 | 19.4 |

A general survey at the end of 1978 revealed that 65,000 projects, each with an investment of more than 50,000 yuan, were under construction (plus another 39,000 renovation projects), representing a total investment of 370 billion yuan. The big and medium-sized projects alone numbered 1,723, with a capital investment totalling 280 billion yuan. By the end of 1980, 160 billion yuan had been spent on the big and medium-sized projects, and 120 billion more was needed. An annual sum of 15 billion yuan would be needed for their completion in eight years; 12 billion yuan a year would be needed for their completion in ten years. This scope of capital construction was obviously beyond our national capability.

Even more serious was the fact that a large amount of money was added to capital construction investment in the last quarter of 1978, when capital construction was evidently already overextended and there was a great need to improve living standards. An additional 8.3 billion yuan was allocated to the budgetary investment, and more than 3 billion yuan were added to the funds collected by the localities. The number of big and medium-sized projects under construction continued to grow. Based on comparable items, the state revenues for 1978 rose by 20 billion yuan over 1977, of which 15 billion went to capital construction.

Furthermore, the additional allocations for capital construction were not put to good use. They were made as before under the principle of giving priority to heavy industry and

taking steel as the key link. Most of it went to the iron and steel industry and the chemical industry without the reliable supply of the fuel and raw materials they would need, and very little was spent in the textile and other light industries, and the energy industry, still less in projects directly related to living standards, thus aggravating the imbalance in the economy.

(2) There was an even more serious imbalance between agriculture, light industry and heavy industry. And within heavy industry, the energy, raw and other materials and building materials sectors and particularly transport and communications lagged behind.

China's agriculture has long been backward. Per capita output of major farm products in 1976 was lower than in 1967: cotton by 30 per cent, three oil-bearing crops (peanuts, sesame and rapeseeds) by 20 per cent and sugar by 10 per cent; per capita output of grain barely reached the 1956 level. Agricultural production rose by -0.5 per cent in 1977 and 8.1 per cent in 1978 over the preceding year while industry grew by 14.6 per cent and 13.6 per cent*. Agriculture became an increasingly weak link in the national economy. In 1978 alone, 2.1 billion U.S. dollars were spent on the import of grain, cotton and sugar, accounting for one-fifth of total imports.

The imbalance between light and heavy industries continued to deteriorate. Light industry grew by 14.3 per cent and 10.8 per cent in 1977 and 1978 respectively. While the 1977 rate was the same as the growth rate of heavy industry, the 1978 rate was again less than the 15.6 per cent registered by heavy industry. The backwardness of light industry had an adverse effect on long overdue improvements in living standards and on availability in market supplies.

At the same time, within heavy industry, the energy, raw and other materials and building materials sectors con-

* Figures include the output value of industries run by rural communes' production brigades and teams.

tinued to fall behind. The energy industry especially fell far short of the growing economy's needs. Irrational extraction of resources resulted in serious imbalances in the energy industry. They became more evident in 1980 when energy output dropped by 1.3 per cent.

Transport and communications, the weak link, remained in a backward state, far from being able to help the development of industry and agriculture. The handling capacity at the coastal ports also remained seriously deficient, with an adverse effect on the growth of foreign trade.

In these two years the iron and steel industry and the machine-building industry continued to grow rapidly. However, large quantities of rolled steel, machinery and electrical goods piled up, most of them overstocked in terms of normal turnover.

(3) The serious imbalances in major sectors of the economy and the defects of the economic system slowed down improvements in economic results in industrial and agricultural production, and many economic and technical norms did not reach the highest levels achieved in the past.

By 1978, 13 of the 30 quality norms for the major industrial products of the country's key enterprises were still below their previous highest levels, and 21 of the 38 norms for consumption of fuel and raw and other materials failed to match the previous lowest levels. The profit realized by every 100 yuan of output value in state-owned industrial enterprises was 15.5 yuan, 27 per cent less than the 21.3 yuan in 1965, the year before the "cultural revolution"; the profit and tax realized by every 100 yuan of production funds were 24.2 yuan, one-fifth less than the 1965 level; and the rate of profits from funds was 15.5 per cent, a quarter lower than the 20.9 per cent for 1965. In 1978, 11,926 state-owned industrial enterprises suffered losses, totalling 4.21 billion yuan. They accounted for 19.3 per cent of the total number of industrial enterprises (the figure being 22.4 per cent in 1977).

The net output value produced by every industrial worker was 2,508 yuan in 1977, and 2,864 yuan in 1978, both lower than the 1965 level of 2,867 yuan. This shows that up to 1978 the growth of the national income in the industrial enterprises was entirely due to the growth of the work force.

(4) Contracts for the import of 22 complete plants were signed with excessive haste. Some of them were beyond our national capacity and their cost exceeded China's ability to pay in foreign exchange, thus aggravating the imbalances.

In our socialist modernization drive, provided we maintain our independence, initiative and self-reliance, it is indeed right and necessary to implement an open economic policy, including the use of foreign funds and the import of advanced technology. However, in utilizing foreign capital, we must consider its economic results and our ability to pay, and in importing technologies, we must consider our ability to assimilate them, to provide the auxiliary items and to supply the energy they need.

In the last quarter of 1978, agreements on the import of 22 complete plants were signed, with a total planned investment of 56.1 billion yuan, including 12.3 billion U.S. dollars in foreign exchange. This was far beyond our national capacity and our energy supply. The contracts on imported projects signed that year were worth 7.8 billion U.S. dollars, all to be paid in cash. Most of them were metallurgical and chemical projects; there were few coal, power or petroleum projects, and fewer still projects that require less investment, gain quick returns and are able to earn more foreign exchange. These contracts mainly involved the import of complete plants, and there were few purchases of manufacturing technology and patents.

Metallurgical projects accounted for 45.4 per cent of the total investment in the 22 imported complete plants. They were not badly needed for the development of economy at that time, but were intended to attain a high output of iron and steel. This only served to worsen the imbalances. Of the 22

plants, many are oil- or coal-guzzlers, and most of them, even if completed, will not be able to go into normal production because of shortages in energy, especially oil.

The foregoing shows that the national economy recovered and developed fairly rapidly after October 1976. However, failure to sum up the positive and negative experiences in socialist construction in the previous three decades and to criticize seriously the long-term "Left" search for quick results led to mistakes in economic work and aggravated imbalances in the major sectors of the economy. Under these circumstances, there was an objective and urgent need to criticize "Left" mistakes in real earnest, readjust the national economy and guide it onto the orbit of healthy development suited to China's actual conditions.

III. PRESENTATION AND IMPLEMENTATION OF THE POLICY OF READJUSTING, RESTRUCTURING, CONSOLIDATING AND IMPROVING THE ECONOMY (January 1979-December 1980)

In December 1978, the 11th Central Committee of the Chinese Communist Party held its third plenary session. This meeting adopted a Marxist political and ideological line for the whole Party. It also pointed out the right direction for the development of the country's economy. It marked a turning point in the development of China's economy.

1. PRESENTATION OF THE POLICY OF READJUSTING, RESTRUCTURING, CONSOLIDATING AND IMPROVING THE ECONOMY

The communique of the third plenary session summed up its work in these words: "Since the work of the Central Committee following its second plenary session has proceeded smoothly and the nationwide mass movement to expose and

criticize Lin Biao and the "gang of four" has mainly been completed victoriously, the third plenary session decided that the focus of the Party's work should be shifted to socialist modernization as of 1979." This change should have been made after the founding of New China, especially after the completion of the socialist transformation in the 1950s. Being misled by "Left" ideology, however, class struggle was launched on a greater scale than was necessary and regarded as the key link for all other work. This resulted in serious political and economic damage.

The third plenary session rectified the Party's political line, affirming that uniting the people of all China's nationalities to concentrate all efforts on socialist modernization is the central task for everyone in the country. Further pointing out that problems still existed in the national economy, the communiqué said: "Some major imbalances have not been completely corrected, and disorganization in production, construction, circulation and distribution has not been fully eliminated. A series of problems concerning living standards in urban and rural areas, which have been left unresolved for years, must now be appropriately solved. We must conscientiously devise solutions for these problems step by step in the next few years. Thus we must achieve a comprehensive balance throughout the economy, so as to lay a solid foundation for rapid development." This was tantamount to proposing the principle that the national economy must be readjusted.

The plenary session decided that "in the light of new historical conditions and practical experience, a number of major new economic measures must be taken to thoroughly transform the system and methods of economic management."

The session decided to distribute to the provinces, municipalities and autonomous regions for discussion and trial implementation two documents. These were "Decisions of the Central Committee of the Communist Party of China on Some Questions Concerning the Acceleration of Agricultural Development (Draft)" and "Regulations on the Work of Rural Peo-

ple's Communes (Draft)". The session declared that "the whole Party should concentrate its main energy and efforts on advancing agriculture as fast as possible because agriculture, the foundation of the national economy, has been seriously damaged in recent years and remains very weak on the whole".

The session also put forward a series of policies and economic measures for developing farm production. Among these, the most significant was a proposal to the State Council that, in order to reduce the disparity in prices between industrial and agricultural products, it should raise the prices for purchase of state-assigned grain quota by 20 per cent and the prices for grain purchased in excess of the quota by an additional 50 per cent and that all this should start when the summer grain was harvested in 1979. It was further suggested that purchasing prices for cotton, oil-bearing and sugar crops, animal products, aquatic and forestry products and other farm and sideline commodities should go up step by step, depending on concrete conditions. After the purchasing prices of farm produce have been raised, then urban workers must be guaranteed against any resulting fall in their living standards.

In April 1979, in accordance with the spirit of the third plenary session, the Party Central Committee put forward the policy of readjusting, restructuring, consolidating and improving the national economy, with readjustment as the principal focus. The readjustment this time is a sound and sober one. The task is chiefly to achieve basically well-balanced relations among agriculture, light industry and heavy industry and within various areas of production and trades, as well as a basically rational relationship between accumulation and consumption.

The serious imbalances among various sectors of the economy is a direct result of sabotage by Lin Biao and the "gang of four" over a long period of time. The economic imbalances were also brought about by "Left" policies and practices of the past 20 years and more, as well as by mistakes committed in 1977 and 1978. At that time there was not a clear grasp of the

actual conditions then emerging from all the factors just mentioned. So imbalances developed in finance, credit, goods and materials, revenue and expenditure of foreign exchange around the time when the third plenary session was being held.

To readjust the economy and to correct the unbalanced situation was in keeping with the general line of correcting "Left" mistakes and doing everything according to actual conditions, a line laid down at the third plenary session. Readjustment is also a prerequisite for realizing the modernizations. It is essential to a steady development of China's economy.

So it was decided that, starting in 1979, effective efforts must be made for several years to readjust, restructure, consolidate and improve the national economy. It was also made clear that this was the first battle which must be won in changing the focus of work to socialist modernization.

Readjustment, restructuring, consolidation and improvement are complementary and interrelated. Readjustment, however, is most important; it is the key link. Putting readjustment into effect means accomplishing the following concrete goals.

(1) To achieve a relative correspondence between the growth of agricultural production on the one hand and the increase in population and the development of industry on the other.

(2) To achieve a growth rate for the textile and other light industries equal to, or slightly greater than, that of heavy industry, keeping the increase in major textiles and other light industrial products basically in correspondence with the rise of domestic purchasing power and at the same time greatly increasing exports.

(3) To alleviate the difficult situation in the fuel and power industries, as well as the transport and communication services, by increasing production and practising economy. To put more emphasis on better quality and greater variety, while increasing production in the metallurgical, machine-building and chemical industries and in heavy industries in general.

(4) To effectively narrow the scope of capital construction, improve its quality, reduce costs and shorten construction periods.

(5) To bring about further increases in the average income of all peasants from the collective economy, and to raise the average wage of all non-agricultural workers and staff, all of which will come about through increasing production.

By restructuring we mean an overall reform of the economic management system, carried out firmly so as to meet the needs of the development of the social productive forces. By consolidation we mean a resolute and effective shake-up in existing enterprises, and especially those in which management is confused. By improvement we mean greatly raising the level of production, technology and management.

Beginning in the latter half of 1978, discussions on practice as the sole criterion of truth were held on a national scale. People doing theoretical and practical work in the economic field, basing themselves on practice, emancipated their minds and repudiated the "two-whatevers's"* viewpoint. This resulted in the restoration of the fine tradition of integrating theory with practice and seeking truth from facts as taught by Marxism-Leninism and Mao Zedong Thought and in the conscientious studying and summing up of the experiences and lessons of socialist construction gained during the 30 years since the founding of the People's Republic. All this is of extreme importance for the successful efforts to follow the principle of seeking truth from facts in China's economic activities and to draw up and implement the policy of readjustment, restructuring, consolidation and improvement of the economy so that it will take the path of sound development.

* This refers to the saying: "We firmly uphold whatever policy decisions Chairman Mao made, and we unwaveringly adhere to whatever instructions Chairman Mao gave."

2. MEASURES TO IMPLEMENT THE READJUSTMENT POLICY

(1) Readjusting policies for the countryside in order to bring about speedy development in agriculture.

On September 28, 1979, the Fourth Plenary Session of the 11th Party Central Committee adopted the Decisions of the Central Committee of the Communist Party of China on Some Questions Concerning the Acceleration of Agricultural Development. This document put forward 25 specific measures to develop agricultural productivity, including the following points.

On condition that they keep to the socialist orientation, carry out government policies, observe the laws and decrees of the state and accept the guidance of state planning, all rural communes or their production brigades and teams have the right to cultivate whatever is suited to the season and to local conditions, determine measures for increasing production, decide on methods of management, distribute their own products and cash income and refuse to follow wrong orders issued by any individual leaders or leading bodies.

It is strictly forbidden for any unit or individual to commandeer or use, without compensation, the labour power, land, draught animals, machinery, funds, products or other materials belonging to any production team.

Economic organizations at all levels in the commune may keep work-points on the basis of labour quotas, or according to the time spent plus public discussion. On condition that unified accounting and distribution are carried out in the production team, work may be contracted to specialized groups, and remuneration paid on the basis of the output quotas. Bonuses are paid if quotas are exceeded.

Land plots allotted to commune members for personal use, individual livestock breeding, household sideline occupations and rural trade fairs are supplementary to the socialist economy. They should not be criticized as capitalist remnants. On the contrary, peasants are to be encouraged and helped to

engage in household sideline production, to increase personal income and activate the rural economy, at the same time that the collective economy is being consolidated and developed.

In accordance with the proposal made by the Third Plenary Session of the 11th Party Central Committee, purchasing prices for arm produce were raised.

For a fairly long time to come, the amount of state purchase of grain from the peasants will be stabilized at the level fixed for the years 1971 to 1975. However, there will be a reduction of 2.5 million tons beginning from 1979, so as to further reduce the burden of the peasants and help develop production. No purchase of grain will be made from those rice-growing areas where the grain ration per capita is below 200 kilogrammes. The same applies to areas growing food grains other than wheat and rice where the grain ration is below 150 kilogrammes*. It is strictly forbidden to purchase more grain than the planned amount.

At the same time that work is done to ensure good grain production, work must also be done to develop production of cash crops such as cotton, oil-yielding and sugar-bearing crops, as well as developing forestry, animal husbandry, sideline occupations and fishery. Thus grain and cash crops, farming, forestry, animal husbandry, sideline occupations and fishery can all be developed simultaneously.

It is necessary to develop animal husbandry on a large scale, so as to increase its proportion in agriculture, paying special attention to the breeding of cattle, sheep, goats, rabbits and other grass-eating animals. In animal husbandry stress must be put not only on increasing the number of animals raised but, more importantly, on increasing meat production and the number of animals for sale. Peasant households in the communes should be further encouraged to raise pigs, cattle,

* The *People's Daily* reported on August 30, 1980 that during the grain year from April 1979 to March 1980, the state withheld its collection and purchase of a total of 2.75 million tons of grain in areas with heavy burdens of grain tax and sale or other difficulties.

sheep and goats, while at the same time livestock breeding by the collective should be actively developed.

Efforts should be made to develop the production of goods for export as a part of agricultural performance. The state decided to allot a special sum of foreign exchange to support the development of cash crops, traditional and special products, livestock, sideline occupations, fishery and related processing industries in the provinces, municipalities and autonomous regions. The purpose is to increase production, under the unified state plan, of goods that are in great demand on the world market, earn high rates of foreign exchange and produce quick returns on capital.

Thanks to implementation of the above-mentioned policies, China's agriculture developed well. The satisfying results were also due to the further strengthening and improving, started in 1980, of the system of production responsibility in agriculture in which remuneration is based on output quotas. Policies concerning ownership were more flexible than ever. For instance, the system of fixing output quotas or work quotas on a household basis* can be adopted for quite a long time at the request of the people in those areas where productivity and living standards are comparatively low. While China's agriculture continues to progress in areas where it has been quite developed in the past, it has been injected with new vitality in areas where it used to be backward.

(2) Accelerating the development of light industry and increasing its proportion in industry as a whole.

The Second Session of the 5th National People's Congress decided to speed up development of the textile and other light

* According to a *People's Daily* report on November 5, 1980, 20 per cent of the production teams in China had adopted the system of fixing output quotas on a household basis. Another report by the same paper released on December 20, 1980 said that the system of fixing output quotas on a household basis had become the major form of responsibility system in Dingxi, Linxia, Tianshui, Pingliang and Wudou in Gansu Province. These places have been known for a long time as difficult areas for agricultural development.

industries. To this end, a number of measures were adopted. First, light industries including textiles are to be given priority in obtaining necessary fuel, power and raw and other materials. The amount of electricity allocated to light industrial enterprises should be supplied in full. Supply and transport and communication departments must organize steady deliveries of coal, oil and raw and other materials to light industries according to the qualitative and quantitative norms laid down in contracts. Light industries should be given priority in obtaining any useful raw or other materials which may be discovered by inventorying warehouses.

The import of raw and other materials necessary for light industry should be properly increased. For instance, the foreign currency allocation for this purpose in the 1979 plan was increased by 320 million yuan or 17 per cent as compared to the year before.

The heavy industrial enterprises, in the meantime, should be mobilized to use their surplus production capacity, leftover materials and stored materials for the maximum possible production of goods for daily use, in so far as these are suited to their technological processes and to popular tastes. This will help meet the demands of both home and export markets.

(3) Gradually bringing about long-overdue improvements in living standards and increasing the ratio of consumption funds to national income.

Living standards for most people, in both urban and rural areas, have improved since 1979. This has happened because of increased agricultural and industrial production, the rise of purchasing prices for major farm and sideline products, increases in wages for most workers and staff and the implementation of the bonus system.

In 1979, the state raised the purchasing prices of 18 major farm and sideline products such as grain, cotton, oil and pigs by a big margin. Prices for purchases exceeding the state quotas for grain, cotton, oil, etc. were also raised. Buying and selling farm produce at negotiated prices began to appear. As

a result, the total national expenditure for purchasing farm produce rose by 22.1 per cent. (The figure was 25.7 per cent if expenditures for purchase of products exceeding the state quotas were included.)

Price disparities between agricultural and industrial goods were narrowed by 18 per cent as compared with the previous year. Rises in purchasing prices of agricultural products brought the peasants an increase of 10.8 billion yuan in income, or an increase of 13.3 yuan per capita of the rural population. Even when allowance is made for the 1.42 billion-yuan increase in expenditure because of rises in retail prices, the net increase of income still amounted to 9.38 billion yuan, or an average increase of 11.6 yuan per capita. In addition, the financial burdens of the peasants were reduced by 2 billion yuan through reduction or remission of agricultural tax and taxes on enterprises run by communes and brigades.

The per capita income realized from the collectives by the peasants in 1979 was 83.4 yuan, 9.4 yuan more than in 1978. The figure reached 85.9 yuan in 1980, 2.5 yuan more than in 1979. Due to the fairly quick development of household sideline production, plus other factors such as higher purchasing prices for some agricultural goods, the overall income of the peasants increased considerably in 1979-80. The average annual increase in the peasants' income from the collectives during the years 1965-76 was only one yuan, but it reached 5.95 yuan during the years 1979-80.

Out of the one billion population in China, over 800 million live in the rural areas. They are a most important factor in the economy. Therefore, the increase of peasants' income is a most significant indication of progress in the whole socialist economy.

In 1979, the government provided jobs for 9.03 million more people in towns and cities and raised the wages of 40 per cent of all workers and staff. The state also readjusted the wage scale in some areas, began to pay subsidies on non-staple food for workers and staff, and instituted the bonus system

in enterprises. The total annual wages of all the workers and staff in state-owned units, including bonus, in 1979 were 6 billion yuan more than in 1978, reaching an average wage in money of 705 yuan per capita, 61 yuan more than the corresponding figure for the preceding year.

In 1980, over 7 million more people were employed nationwide. The total annual wages for 1980 in state-owned units were 62.8 billion yuan, an increase of about 10 billion yuan or 19.5 per cent as compared with wages in 1979. The 1980 wages in money for workers and staff in state-owned units reached 803 yuan per capita. This represents an increase of 14.1 per cent above the 1979 figure. If we deduct the factor of price rises, the net increase in real income was still 6 per cent. The average wage in money for workers and staff in collectively owned units reached 624 yuan in 1980, representing an increase of 15.1 per cent or a net increase of 7.1 per cent in real income as compared with the previous year.

Within the overall investment in capital construction, the government raised the proportion of investment for housing, city construction and development of science, education, culture and public health. The proportion was 17.4 per cent in 1978, 27 per cent in 1979 and 33.7 per cent in 1980. New floor space in all kinds of buildings in state-owned units completed in 1979 came to 120 million square meters. This included 62.56 million square meters of residential housing. The increase over 1978 was 33 per cent. In 1980, another 82.3 million square meters of residential housing were completed in state-owned units. This was the highest total for housing completed in state units in any year since the founding of the People's Republic. It amounted to an increase of 31.6 per cent over the previous year.

(4) Starting to reform economic management in industrial and commercial departments.

Reforming China's economic management system began with expanding the decision-making power of enterprises. In October 1978 experiments to bring about the expansion were

launched in six enterprises in Sichuan. In 1979 the figure was increased to 100. Among these, 84 were local state-owned units, while the rest were transport and communication enterprises under the direct management of the central government.

For the most part, these experiments involved the following features. (a) On condition that it fulfils the targets set in the state plan, an enterprise may produce merchandise in response to market demand and accept customers' materials for processing. (b) An enterprise may market its products itself if they are not purchased by the material and commercial departments, as well as marketing its new products. (c) Provided it fulfils the eight economic and technical targets set by the state, an enterprise may keep as its own funds 3-5 per cent of the profit it has made according to the state plan and an additional 15-20 per cent of the profit it has made in excess of the planned target. (d) An enterprise may keep 60 per cent of its depreciation funds. For the first two years after adopting new techniques, industrial processes or equipment with its own money, a unit does not have to give the profits from such changes to the state. This kind of profit and the retained depreciation funds, plus the funds for overhaul, can be used for tapping potentials and for carrying out technical renovation and innovation. (e) On condition that it fulfils the eight economic and technical targets, an enterprise may draw a fund equivalent to 17 per cent of the standard total wages of its workers and staff as a production bonus. (f) A unit may appoint its middle-level leaders without permission from the leading bodies. (g) As for the circulating funds needed by an enterprise, no interest will be paid on the sum within the quota, low interest will be attached to the sum exceeding the quota and high interest to overstocked materials.

In 1979 when experiments to extend enterprises' power of decision started, a number of enterprises in every province, municipality and autonomous region took part, totalling over 4,000 throughout the country. By 1980, over 6,600 industrial

enterprises had entered these experiments. They made up 16 per cent of the total 42,000 enterprises which were required to deliver profits to the state, but they accounted for 60 per cent of the output value of these enterprises and 70 per cent of their profits.

With the extension of decision-making power, satisfactory economic results have been achieved. In 1979, the 84 enterprises taking part in the experiments in Sichuan increased their total output value by 14.9 per cent over 1978, their profits by 33 per cent and the profits they turned over to the state by 24.2 per cent. Compared with the enterprises which did not take part in the experiments, they turned out 25 per cent more output value, made 120 per cent more profits and turned over nearly 100 per cent more profits to the state. Preliminary statistics collected on 5,422 enterprises that had carried out the experiments show that, from January to September 1980, their industrial output value increased by 17 per cent as compared with the same period of 1979 and the profit they turned over to the state rose by 13 per cent. Of course there were various factors leading to higher rates of increases in output value and profit in these enterprises, but the extension of the decision-making power did play an important part.

In the latter half of 1980, five enterprises in Sichuan, two in Shanghai, and some trades and enterprises in Liuzhou, Guangxi, began to experiment with the systems which replaces profit delivery to the state by tax payment, plus independent accounting and assuming sole responsibility for profits and losses. The State Economic Commission issued a document introducing the experiences of these enterprises to every province, municipality and autonomous region in the country. The Commission called for each administrative division to select one or two state-owned industrial enterprises in 1980 to carry out these experiments in order to gain experience for gradual popularization and a further reform of the economic management system. In 1980, 191 enterprises took part in the experiments.

On October 17, 1980 the State Council passed ten provisional regulations to promote and protect socialist competition. The purpose is to break down the barriers between various localities and departments, so that there may be extensive competition, guided by state planning and aimed at facilitating commodity circulation. Some regulations follow.

Enterprises' relatively independent status as commodity producers should be respected. No monopolization or exclusive managing of any product is allowed, except for the items exclusively managed by certain departments or units as stipulated by the state. Inviting and submitting public bids may be introduced, on an experimental basis, in construction and production projects or in the management of other items for which contracts are suitable.

In principle, enterprises can market products which they have produced above the plan or with raw and other materials they themselves have scraped together, or which are new products for trial sale. However, the state has the priority in purchasing the products in short supply which are within the category of state-monopolized purchase, sale or distribution. Enterprises will also be allowed to market some of these products. Payment will be made for the transfer of know-how or of important inventions. Prices of some products designated by the state may fluctuate within the range fixed by it.

There should be regulation through the market under the guidance of state planning. Means of production should be allowed to be put on the market and freely circulate, except in the case of some important or scarce materials and products which must be allocated according to plan and purchased, first of all, by departments of supplies. Consumer goods should no longer be subject to unified purchase by the state commercial departments but should be handled by means of planned and selective ordering and purchasing, except for those commodities which must be purchased, sold or distributed by the state.

Restructuring of foreign trade management must continue, and the power of various localities and departments to engage in foreign trade should be appropriately expanded.

(5) Softening policies concerning ownership in towns and cities and allowing various economic elements and methods of management to co-exist, on condition that the public ownership of means of production occupies the dominant position.

According to statistics of October 1980, besides the established enterprises under state or collective ownership and enterprises under joint state-collective ownership, there had appeared collective or individual enterprises with private capital in 20 provinces, municipalities and autonomous regions. They were engaged in many different production lines and services including textiles, garments, arts and crafts, wood products, plastic processing, printing, leather, building, transportation, fishery, animal and poultry raising, repairs, commerce, food and catering, and raw and other materials. By 1980, private households doing business in industry and commerce had grown in number to over 400,000 from 150,000 in 1978. The following are some of the new economic forms.

(a) Among state enterprises some are jointly owned by the state and individual investors. The Mudanjiang Coal-Mining Machinery Plant in Heilongjiang Province, for instance, set up the Dongfang Furniture Limited Company on the basis of the potential productivity of its equipment, and of surplus working hours and shares from its workers and staff. Each share is worth 100 yuan with an interest rate of eight per thousand. After taxes are paid, 70 per cent of the profit goes to accumulation, 5 per cent is kept for emergency and special use, and the remaining 25 per cent is divided among company directors, shareholders and workers.

(b) In the collective economic sector some enterprises are jointly owned by the collective and individual investors. The Chengjiao Commune, Panshan County, Liaoning is an example. Having a surplus labour force of over 1,000 people, the commune set up five enterprises with investment from individuals,

including a printing house and a latex factory, providing jobs for 250 people. The interest on investment by individuals is paid at the same rate as interest from a bank, and the capital is to be paid back to the investors in three years. Wages are paid according to the actual work done. Some communes and counties in Guangdong have established investment companies. Workers are employed on the basis of their shares which also yield interests.

(c) Also in the collective economic sector there are some enterprises which have their own capital and are responsible for their profits and losses. Twelve producers' co-operatives have been set up in Dandong, Liaoning with funds they managed to find themselves. Retired workers and veteran craftsmen serve as the backbone of the co-operative labour force. Of the 472 workers and staff, 369 are those who, having left school, were waiting for job assignments before they joined the co-operatives. Among the products or services provided by these co-operatives are opera costumes, spare parts for electrical goods, horse riding facilities, tailoring and vehicle repairs. There are two forms of income distribution — fixed wages and piece work wages. Profits are divided at the end of the year. Fifty-five per cent of the profits are kept as a public accumulation fund, 30 per cent as a public welfare fund, and the remaining 15 per cent is divided among workers and staff.

(d) There is also a private economic sector with enterprises belonging to one or several households. The Yuebin Restaurant in Beijing, for example, is operated by three people, a mother and her two sons. Some private businesses employ one or two apprentices. Three private tailor shops in Dongcheng District, Beijing, employ altogether four apprentices. Some private industrial businesses ask others to do their processing work. Wang Shuying, a resident of Chongwen District, Beijing, is a private brushmaker. She pays three young people waiting for jobs and a retired worker to help her.

(e) There are some joint-stock companies with capital from overseas Chinese or former industrialists and business-

men. For instance, the Patriotic Building Company in Shanghai was founded by the Shanghai Democratic National Construction Association, the Association of Industry and Commerce and some former industrialists and businessmen. This company now has an investment of over 57 million yuan from more than 1,100 industrialists and businessmen. The company has set up 17 enterprises engaged in construction, trade and services, either independently or jointly with neighbourhood committees.

In addition there are also enterprises run with Chinese and foreign capital, or enterprises with capital from overseas Chinese, or industrialists and businessmen in Hongkong and Macao, or foreign capital.

3. CONTINUING ECONOMIC GROWTH IN THE COURSE OF READJUSTMENT

The Chinese national economy continued to develop during the process of readjustment in 1979 and 1980.

(1) There were continued increases in national income and rises in the output of major industrial and agricultural products and in the freight volume as indicated in the following tables.

National Income

| Year | Total national income (billion yuan) | Increase over the preceding year (%) | Average income per capita (yuan) | Increase over the preceding year (%) |
|------|--------------------------------------|--------------------------------------|----------------------------------|--------------------------------------|
| 1979 | 335 | 11.3 | 347 | 9.8 |
| 1980 | 363 | 8.4 | 372 | 7.2 |

Note: The national income is based on the prices of the indicated year. If calculated on the basis of the constant prices of 1970, the increase in 1980 over 1979 should be 7 per cent.

Output of Major Industrial and Agricultural Products

| Item | 1979 | | 1980 | |
|--|--------|--------------------------------------|---------|--------------------------------------|
| | Output | Increase over the preceding year (%) | Output | Increase over the preceding year (%) |
| Grain (million tons) | 332.11 | 9 | 318.22 | -4.2 |
| Cotton (million tons) | 2.207 | 1.8 | 2.707 | 22.7 |
| Oil-bearing crops (million tons) | 6.435 | 23.3 | 7.691 | 19.5 |
| Pork, beef and mutton (million tons) | 10.624 | 24.1 | 12.055 | 13.5 |
| Draught animals at year end (million head) | 94.591 | 0.7 | 95.246 | 0.7 |
| Pigs at year end (million head) | 319.71 | 6.1 | 305.431 | -4.5 |
| Steel (million tons) | 34.48 | 5.5 | 37.12 | 7.7 |
| Pig iron (million tons) | 36.73 | 5.6 | 38.02 | 3.5 |
| Coal (million tons) | 635 | 2.8 | 620 | -2.4 |
| Electricity (billion kwh) | 282 | 9.9 | 300.6 | 6.6 |
| Crude oil (million tons) | 106.15 | 2 | 105.95 | -0.2 |
| Timber (million cu.m) | 54.39 | 5.4 | 53.59 | -1.5 |
| Cement (million tons) | 73.9 | 13.3 | 79.86 | 8.1 |
| Chemical fertilizer for rural use (million tons) | 10.654 | 22.6 | 12.32 | 15.7 |
| Insecticides (thousand tons) | 537 | 0.8 | 537 | 0 |
| Metal cutting tools (thousand) | 140 | -23.5 | 134 | -4.3 |
| Motor vehicles (thousand) | 186 | 24.8 | 222 | 19.4 |
| Tractors (thousand) | 126 | 10.5 | 98 | -22.2 |
| Cotton yarn (million tons) | 2.63 | 10.5 | 2.93 | 11.4 |

| | | | | |
|---|-------|-------|-------|------|
| Cotton cloth (billion m) | 12.15 | 10.2 | 13.47 | 10.9 |
| Chemical fibres (thousand tons) | 326 | 14.4 | 450 | 38 |
| Machine-made paper and paperboards (million tons) | 4.93 | 12.3 | 5.35 | 8.5 |
| Bicycles (million) | 10.09 | 18.1 | 13.02 | 29 |
| Sewing machines (million) | 5.87 | 20.8 | 7.68 | 30.8 |
| Wrist watches (million) | 17.07 | 26.4 | 22.16 | 29.8 |
| Cigarettes (million cases) | 13.03 | 10.2 | 15.2 | 16.7 |
| Sugar (million tons) | 2.50 | 10.1 | 2.57 | 2.8 |
| Salt (million tons) | 14.77 | -24.4 | 17.28 | 17 |
| Synthetic detergents (thousand tons) | 397 | 22.5 | 393 | -1 |

Notes:

1. Chemical fertilizer is counted on 100 per cent effectiveness.
2. Lorries do not include chassis and cross-country vehicles.
3. Tractors do not include those refitted as bulldozers by enterprises.
4. Every bale of cotton yarn is calculated as 181.44 kilogrammes.

Freight Volume (billion ton-kilometres)

| Item | 1979 | | 1980 | |
|-------------|--------|--------------------------------------|--------|--------------------------------------|
| | Volume | Increase over the preceding year (%) | Volume | Increase over the preceding year (%) |
| Goods moved | | | | |
| By rail | 558.8 | 4.8 | 571.7 | 2.1 |
| By water | 456.4 | 20.8 | 505.3 | 10.7 |
| By pipeline | 47.6 | 10.8 | 49.1 | 3.2 |

Note: The railway freight volume in 1980 includes goods moved on locally-run railways while that in 1979 does not.

(2) A change towards more rational balances in major branches of the economy began.

Agricultural production was strengthened. The 1979 harvests were good, with the total output value (including farming, forestry, animal husbandry, sideline occupations, fisheries and commune- and brigade-run industry) reaching 158.4 billion yuan, overfulfilling the plan by 4.2 per cent. This represents an 8.6 per cent rise over the previous year, more than the 8.5 per cent growth rate of industry. The year 1980 was a bad one for agriculture because of waterlogging in the south and drought in the north. Nevertheless, correct rural policies encouraged the productive enthusiasm of the cadres and peasants, who greatly reduced the losses caused by natural disasters and even increased their ability to overcome adversity through greater production. All regions reported fairly good harvests except a few places like Hubei and Hebei, where grain output fell by a big margin. Based on the constant prices of 1970, gross output value reached 162.7 billion yuan, topping the plan by 3.3 per cent or representing a 2.7 per cent increase over the preceding year. Grain output dropped by nearly 14 million tons, but was still over 13 million tons above the 1978 harvest. It was the second best harvest since 1949. There were big increases in the output of cash crops, with cotton, oil-bearing crops and sugar-yielding crops surpassing their previous records. Rapid expansion was made in the diversified undertakings of rural communes and their subdivisions as well as the commune members' domestic sideline occupations.

Light industry grew faster than heavy industry. In 1979, the total output value of light industry increased by 9.6 per cent over the preceding year, surpassing the 7.7 per cent increase in heavy industry. In 1980, light industry rose by 18.4 per cent over 1979, further surpassing the 1.4 per cent of heavy industry. Thanks to the priority given to light industry in these two years, the proportion of light industry in the total industrial output value went up from 43.1 per cent in 1978 to 43.7 per cent in 1979 and further to 47.1 per cent in 1980 (based

on the prices of the respective years). At the same time, heavy industry also began to serve agriculture, light industry and exports instead of serving itself as in the past.

The faster expansion of light industry resulted in an initial improvement of the industrial structure. Better enterprise management and operation and lower energy consumption led to a fairly fast growth in industrial production even though energy production increased very little (2 per cent in 1979) or even decreased (by 1.3 per cent in 1980).

The rate of accumulation began to drop. It was 34.6 per cent in 1979, a 1.9 per cent fall from the 36.5 per cent in 1978, and came down to 32.6 per cent in 1980, another fall of 2 per cent.

(3) Domestic and foreign trade made further progress. The total volume of retail sales in 1979 reached 180 billion yuan, an increase of 24.1 billion or 15.5 per cent over 1978. In 1980 it reached 214 billion yuan, 34 billion or 18.9 per cent above the 1979 figure (12.2 per cent if allowance is made for price increases). Between 1953 and 1957, the total volume of retail sales rose by an annual 3.9 billion yuan, and between 1957 and 1976 it rose by an annual 4.4 billion yuan. Compared with previous years, the increases in retail sales in 1979 and 1980 were quite considerable.

Increases were also made in the volume of foreign trade, as illustrated in the following table:

Total Volume of Imports and Exports (billion yuan)

| Year | Total Volume | Increase over the preceding year (%) | Imports | Increase over the preceding year (%) | Exports | Increase over the preceding year (%) |
|------|--------------|--------------------------------------|---------|--------------------------------------|---------|--------------------------------------|
| 1979 | 45.56 | 28 | 24.28 | 29.6 (22.3) | 21.17 | 26.3 (23.6) |
| 1980 | 56.3 | 23.6 | 29.1 | 19.2 (2.1) | 27.2 | 28.7 (14.3) |

Note: Figures in bracket are the actual increases after allowing for price rises on the international market.

(4) Living standards were further improved.

According to a survey of 86,955 families in 44 cities made in 1980 by the State Statistical Bureau, marked increases took place in the income of most families of workers and staff in these two years. The increases were such that 85 per cent of the families had an average monthly income of more than 25 yuan per member to be used for the cost of living. In the first quarter of 1980, each family had 4.2 persons on the average, with 2.48 persons or 55.4 per cent at work. Every employee supported 1.81 persons (including self). The monthly wages of the persons investigated averaged 63.7 yuan (including bonuses, allowances and state subsidies for price rises in non-staple foodstuffs). The per capita monthly income of the families (including regular income and temporary income) was 35.6 yuan, of which 32.8 yuan could be used for the cost of living (daily expenses of the family after providing support for the dependents and presenting gifts to others).

Rural living standards also improved. The per capita total income of peasants rose from 73 yuan in 1956 to 113 yuan in 1976, an average rise of 2 yuan a year. It reached 117 yuan in 1977 and jumped to 170 yuan in 1980, averaging an annual rise of 17.7 yuan in these three years.

(5) There was also a steady growth in cultural, educational and public health undertakings as shown in the following tables:

Students in Schools (million people)

| Year | Institutions of higher learning | Secondary technical schools | Ordinary Secondary schools | Primary schools |
|------|---------------------------------|-----------------------------|----------------------------|-----------------|
| 1979 | 1.02 | 1.199 | 59.05 | 146.63 |
| 1980 | 1.144 | 1.243 | 55.081 | 146.27 |

Students in schools (thousand people)

| Year | Final-year students | | First-year students | |
|------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|
| | Institutions of higher learning | Secondary technical schools | Institutions of higher learning | Secondary technical schools |
| 1979 | 85 | 181 | 275 | 491 |
| 1980 | 147 | 410 | 281 | 468 |

Allocations for culture, education and public health stood at 13.212 billion yuan in 1979, 17.3 per cent above the previous year, and reached 15.738 billion yuan in 1980, 19 per cent above 1979.

(6) The natural population growth rate maintained a low level thanks to family planning. The birth rate in 1979 was 17.9 per thousand, the death rate 6.2 per thousand, and the natural growth rate 11.7 per thousand. The natural growth rate in 1980 was 12 per thousand.

The foregoing were the main achievements China made in 1979 and 1980 after implementing the policy of readjustment. This means that China's economic situation is sound at present and has rarely been better since 1949.

4. PROBLEMS ACCOMPANYING ECONOMIC GROWTH, 1979-80

To overcome the imbalances between major sectors of the national economy, adjust the ratio between accumulation and consumption and effect gradual and long-overdue improvements in living standards, the state decided in 1979 to increase the income of the urban and rural population by raising the purchase price of farm produce and the wages of part of the work force. These outlays entailed retrenchment in other items of expenditure, especially investment for capital con-

struction, in order to balance revenue and expenditure. Two problems surfaced in the actual implementation.

On the one hand, the added spending on consumption exceeded the budgeted plan. In 1979, state subsidies for the rise in the purchase price of farm produce reached 7.8 billion yuan, exceeding the budgeted figure by 1.3 billion; tax reductions and remissions totalled 2 billion yuan, exceeding the budgeted sum by 0.3 billion; state expenditures for additional employment, wage raises and bonuses amounted to 7.5 billion yuan, exceeding the budgeted plan by 2.5 billion, etc. In 1980, state expenditures for price increases, pay rises, bonuses and wages for additional employment again exceeded the 1979 sum by some 10 billion yuan. Bonuses alone were increased from 5 billion yuan in 1979 to 8 billion in 1980.

On the other hand, capital construction was not really curtailed, and investment in this field was not cut back. In 1979, state investment for capital construction was 39.5 billion yuan, on a par with the 1978 figure. But the investment made by various departments and localities rose from 8.4 billion yuan in 1978 to 10.5 billion, an increase of 2.1 billion or 25 per cent, bringing the total investment to 50 billion yuan, 4.2 per cent more than the 48 billion yuan in 1978.

There were 986 big and medium-sized projects under construction in 1980 (904 still under construction at the end of the year), representing a cut of 329 compared with the 1,315 in 1979. While a number of projects were suspended or deferred, new projects were started. While the former mostly required small investments, the latter mostly needed large investments. Thus, the scope of capital construction actually expanded instead of being curtailed. The total budgetary investment for 1980 was 28.1 billion yuan, 29 per cent less than the previous year. But the aggregate investments made by the state-owned units reached 53.9 billion yuan, a rise of 3.9 billion or 7.8 per cent over 1979.

Hence, expenditure for consumption went up, while spending on accumulation, including capital construction, was not

reduced. The expenditures for consumption and accumulation in 1979 and 1980 both exceeded the national income for that year, resulting in deficits in the final state accounts. The deficit in 1979 was 17 billion yuan and in 1980, 12.1 billion. The state was compelled to over-issue banknotes (a limited amount in 1979, and another 7.8 billion in 1980), with the result that the money in circulation exceeded the normal amount, triggering price rises. It is estimated that the general level of retail prices in December 1979 was 5.8 per cent higher than the year before, and the price index of the cost of living for workers and staff rose by 6.4 per cent. Average retail prices in 1980 again rose by about 6 per cent over 1979 (the prices of non-staple foodstuffs went up 13.8 per cent). Prices rose by 8.1 per cent in the cities and by 4.4 per cent in rural areas. The prices of consumer goods went up 7.1 per cent and those of rural means of production 1 per cent.

Furthermore, a train of new problems appeared in 1980 as the economy made headway in the course of readjustment.

(1) China was hit by severe natural calamities, waterlogging in the south and drought in the north. Preliminary statistics show that 720 million *mu* of farmland was affected, of which 350 million *mu* was hard hit. Grain output decreased by 4.2 per cent compared with the previous year.

(2) The failure of energy production to meet the needs of a growing economy became even more conspicuous. Energy production in 1980 dropped 1.3 per cent below the 1979 level. The output of coal was 620 million tons, a fall of 15 million tons or 2.4 per cent; that of crude oil was 105.95 million tons, a fall of 0.2 per cent.

(3) The consolidation of industrial enterprises progressed at a slow pace. In 1980, a number of industrial enterprises shut down or suspended operation in some economic departments and localities because they turned out poor products at high costs, produced unsaleable goods or operated at a chronic loss. However, the number of newly built or commissioned enterprises increased even more, so that the production

capacity of industrial enterprises remained incompletely exploited. Because some local authorities opened many small factories which competed with big plants for raw materials, and because some areas failed to sell enough farm and sideline products, textile and other light industries in Beijing, Tianjin and Shanghai encountered difficulties.

This shows that as the economic situation improved there was also a potential danger of successive annual budget deficits and uncontrollable price rises.

5. THE 1980 DECISION ON FURTHER READJUSTMENTS TO THE ECONOMY

The meeting of provincial governors and the working conference of the Central Committee of the Party at the end of 1980 made thorough and comprehensive analysis of China's economic situation, summarized and studied anew the experiences learned in economic construction, and arrived at the conclusion that further readjustment of the national economy was imperative.

The immediate objective of the further readjustment is to balance revenues and expenditures and eliminate financial deficits, to achieve a balance between credit receipts and payments and eliminate over-issue of banknotes, and to keep prices stable.

The long-range objective is to overcome the disproportions between the major sectors of the economy and establish a comparatively rational economic structure.

The chief measures included in the readjustment are:

(1) Firmly curtailing the scope of capital construction to a basic minimum. In 1981, capital construction investment would be drastically cut down to 30 billion yuan, of which state investment would be 17 billion (as against 24.1 billion in 1980 and 36 billion in 1979) and locally-collected funds 13 billion,

a reduction of over 20 billion or 40 per cent from the 1980 figure.

(2) Changing the composition of investment. In addition to putting an end to pointless, redundant projects, some of the 22 imported projects signed in 1978 would be suspended, some postponed, and others cut in scale. Although this would cost quite a lot, some funds would be saved and diverted to use on coal, power, petroleum, transport and light industrial projects, and some raw and other materials, fuels and power would be saved to enable existing enterprises to exploit more fully their production capacity. This change in the composition of investment would help adjust the economic structure and develop agriculture, light industry, the energy and building materials industries and transport and communications services, thus increasing the commodity supply.

(3) Paying serious attention to agricultural and industrial production. Economic policies should be further implemented in the rural areas to continue to improve and stabilize various forms of the production responsibility system and to strive for better harvests and for an all-round development of diversified undertakings while increasing grain output. There should be a fairly fast growth in light industry and particularly in the production of consumer goods. Heavy industry should switch from mainly serving capital construction and itself to mainly serving technical transformation, agriculture, light industry and export. All enterprises must take vigorous measures to economize on energy consumption.

(4) Consolidating and readjusting existing enterprises with emphasis put on greater economic returns, and continuing to shut down, suspend operations in, merge or switch over to other lines enterprises which turn out poor products at high costs, produce unsaleable goods, or suffer chronic losses (stressing mergers and switch overs).

(5) Issuing treasury bonds to the tune of 4 to 5 billion yuan in value in 1981. This was designed to mobilize local authorities, government agencies, mass organizations and

enterprises (as well as a small number of individuals) temporarily to lend their funds or savings to the state to help achieve a balance between revenues and expenditures.

(6) Borrowing by the state treasury some 8 billion yuan in 1981 from local financial departments, the propriety right to which was still in the hands of the local authorities.

(7) Reducing expenditures. Except for a few items such as culture, education, scientific research and public health, all expenditures should be retrenched so that the total sum of spending would not go beyond national financial resources. This would cover not only drastic cuts to administrative expenses but also some reductions in national defence.

(8) Strengthening centralized leadership over the macro-economy and enforcing necessary administrative intervention, strengthening the legal system and tightening discipline in financial and economic affairs to prevent arbitrary moves, and finding genuine solutions to the problem of balanced development in the economy in line with the state plan and government regulations. Of course, the microeconomy must be further invigorated. This does not mean, however, that enterprises with decision-making powers should be guided by no plans or free from any administrative intervention. The initiative of local authorities, departments and enterprises should be subordinated to socialist planning, and the part should be subordinated to the whole.

(9) Slowing down the pace of restructuring the economy. For some time to come, the focus would be on readjustment. Restructuring must be subject to readjustment and should by no means hamper the latter. Restructuring beneficial to readjustment should continue. On the whole, the pace of restructuring would have to slow down a little, but this does not mean any change in direction.

(10) Balancing revenues and expenditures and keeping prices stable. The above measures should achieve a basic balance between revenues and expenditures in 1981 and

eliminate the financial deficit, thereby putting an end to the over-issue of currency and checking inflation.

* * *

What can we learn from this review of the development of the Chinese economy in 1977-80?

The Chinese economy is undergoing a historic turn, changing from its old course governed by the "Left" mistaken search for hasty successes to a new course suited to China's actual conditions.

Experience shows that the principal contradiction in China since the basic completion of the socialist transformation is one between the ever-growing material and cultural needs of the people and the backward social production. It is imperative for the state to shift the focus of its work to socialist modernization centred around economic construction, energetically developing the productive forces in society and on this basis gradually improving the material and cultural life of the people. Our past mistakes, in the final analysis, lay in the failure to effect this strategic shift with a firm hand. Unless there should be a large-scale invasion from outside we must stick to this focus in the future (even then, economic construction must still go on as required and permitted by the war).

Experience shows that socialist economic construction must proceed from the actual conditions in our country and be appropriate to our national capacity. Gigantic efforts must be made to realize in stages the goal of modernization. The chief manifestations of long-term "Left" mistakes in our past economic work were the disregard for China's actual conditions, transcending practical possibilities, and the neglect of economic returns in production, construction and management and of the scientific demonstration of economic plans, policies and measures. The waste and losses were enormous. In the future, we must adopt a scientific approach, strive for a thorough understanding and analysis of conditions, conscientiously listen to the views of cadres, the masses and ex-

perts from all sides and do our best to act according to objective economic and natural laws and to bring about a coordinated and balanced development in all economic sectors. We must acknowledge the relatively backward economy and culture in our country as an essential fact, but we must also acknowledge such favourable domestic and international conditions as the achievements and experience we have gained in economic construction and the expansion of international economic and technical exchange, and make the best possible use of them. We are opposed both to the search for hasty results and to passive mentalities.

Experience shows that changes and improvements in the socialist relations of production must correspond with the productive forces and be favourable to growth in production. The state economy and the collective economy are the basic forms of the Chinese economy, and the individual economy of working people, operating within certain prescribed limits, is a necessary complement to the public economy. It is necessary to establish concrete management and distribution systems suited to various sectors of the economy. It is also necessary to uphold the planned economy, based on public ownership, at the same time as encouraging the supplementary role of regulation through the market. Great efforts must be made to expand socialist commodity production and exchange. There is no fixed model for the development of socialist relations of production. Our task is to create a concrete form of relations of production at every stage of the development of productive forces in China, a form which is in keeping with their development and also promotes their further advance.

The failure of our economic work to break free from the long-term mistaken search for quick results is, fundamentally speaking, due to our lack of a clear understanding of basic conditions in China. What are the basic conditions in China? China is a socialist country with one billion people, of which 800 million live in the countryside. Our economy has grown to some size, but its backwardness has yet to be changed com-

pletely. Per capita national income in 1979 was 347 yuan (plus service trades and depreciation, the per capita GNP was estimated at 253 U.S. dollars.) It is a very complicated and arduous task to carry out the drive towards modernization in such a country as ours, which will take a very long period to complete, and impatience will not help us at all. Economic construction can succeed in China only if we proceed in the light of the country's actual conditions and act conscientiously in accordance with objective laws.

In the past, guided by the mistaken concept which prompted the search for quick results, we were not able to draw lessons from our experience. After the third plenary session, under the correct leadership of the Central Committee of the Chinese Communist Party, the Party and nation were mobilized to summarize our past experience, reappraise conditions in China, conscientiously implement the policy of economic readjustment, and make a fresh start based on actual practice.

In what ways does the new course of China's economic development differ from the old one and what are its characteristics? Broadly speaking, they include the following:

(1) In development objectives and speed, instead of one-sidedly seeking high speed of growth in total output value and selected items, and putting forward unrealistic slogans and predictions as in the past, we shall set plans for economic and social development under the principles of hard work, feasibility, realism and steady progress, with the aim of improving the material and cultural life of the people. In the long run, our progress will be quite fast, not slow, and the benefits to the people will be increased, not reduced. The Central Committee of the Chinese Communist Party has proposed the practical goal of achieving a modest level of prosperity in China in 20 years of hard work. We shall then advance towards a still higher level of modernization. While pushing forward material production, we shall also strive to attain a high order of socialist civilization.

(2) Instead of undertaking construction and accumulating funds beyond our national capacity as in the past, we shall maintain an appropriate ratio between accumulation and consumption. The accumulation funds shall be set at about 25 per cent of the national income and the consumption funds at about 75 per cent. This ratio shall be attained step by step through economic readjustment and kept for a long period to come.

(3) In the structure of the national economy, we shall gradually change the situation in which heavy industry as a whole is over-emphasized; light industry, agriculture and the energy industry are weak, and transport and communications services fall short of the needs. In line with the requirements of objective laws, we shall develop agriculture, light industry, heavy industry, building, transport and communications, commerce, and service trades in rational proportions, and expand culture, education, science, public health, environmental protection, social welfare and other undertakings.

(4) In our approach to development, we shall abandon the extension method of expanding production, i.e., concentrating on quantitative quotas, building new projects, setting up new enterprises and increasing energy and raw materials consumption. Instead, we shall follow the intension method of expanding production, paying more attention to quality and results and relying mainly on existing enterprises exploiting their potential, introducing renovations and reforms, raising labour productivity and economizing on the consumption of energy and raw and other materials. Moreover, we shall make constant improvements in quality so that our products become more saleable, thus saving money, lowering costs and increasing profits. The several hundred thousand enterprises already in operation are the material base of our modernization; it is imperative to exploit their potential fully, transform them and equip them with imported new technologies. For the technical personnel needed to achieve modernization, in the 1980s we must rely chiefly on the millions who were trained by our

colleges in the 1950s and 1960s and have valuable experience in practical work.

(5) We shall immediately implement the appropriate restructuring of the economic system that will assist in the readjustment: large-scale reforms should be effected sometime later. We shall gradually eliminate the old error of over-concentration of power or "everybody sharing food from the same big pot" and handle relationships of material interest among the state, the collective and the individual correctly. We must both strengthen unified guidance of the macroeconomy and give new life to the microeconomy, encouraging the regulating role of the market under the guidance of national planning. Different kinds of economic sectors will be allowed to exist while the socialist public ownership is predominant.

(6) In economic relations with foreign countries, we shall rectify the practice of a few years back when new foreign technology was rashly imported without due consideration. We shall, however, by no means return to the old method of closing the door to the outside world. Instead, proceeding from actual conditions in China, we shall implement the policy of enlisting foreign aid as a supplement to our own efforts. We shall continue to develop economic exchanges with other countries on the basis of equality and mutual benefit. The import of advanced technology must proceed from the needs of China's economic development and our ability to supply the necessary accessories and assimilate it. In drawing on foreign capital, consideration must be given to our ability to repay. Although the import of foreign technology and equipment will be reduced in the immediate future, our external economic relations will continue to develop on the basis of a steady growth in China's domestic economy.

This new course of economic development is not a figment of someone's imagination but is based on a consideration of our practical experience in the past 31 years. People familiar with the history of the People's Republic's economic development will remember that in the 1950s China did an excellent job in

healing the wounds of war, rehabilitating the economy and fulfilling the First Five-Year Plan. The early 1960s also saw the successful readjustment of the Chinese economy and its complete recovery from the bad consequences of the "big leap forward". Remarkable achievements were made in these two periods precisely because the development objectives, general and specific policies and measures in the economic work then were determined in the light of China's actual conditions, and were realistic and practical. The new course presented after the Third Plenary Session of the 11th Central Committee of the Party is a continuation and development of this realistic, correct line under new circumstances.

True, the Chinese economy is encountering many difficulties. This is attributable to the problems which have accumulated as a result of the long-term "Left" errors — errors committed when the concept of seeking quick results was influential. It will require strenuous efforts and a great deal of time to overcome these difficulties. However, their root cause has been located and the concept of seeking truth from facts is already playing a decisive role. As long as we advance along the new course suited to actual conditions in China, we shall certainly overcome all difficulties as they arise, and ensure steady progress in the economy.

Chapter II

RESTRUCTURING OF THE ECONOMY

by Liu Guoguang and
Wang Ruisun

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WITH the triumph of the socialist revolution, China has gradually established a socialist economic system characterized by public ownership which, essentially different from the capitalist system of exploitation, has opened up a broad road for the country's socialist development and her people's well-being. China's achievements in construction and gradual improvements in the living standards over the past three decades or more testify to the superiority of this economic system.

However, for the socialist economic system to realize its full potential, the specific systems of management in all fields must constantly be probed and evaluated and tested to establish an economic structure according to the actual conditions of this country, a structure which serves the socialist economic system. The restructuring of the economy currently being undertaken in China is precisely such a process aimed at further realizing the superiority of the socialist economic system.

The country's current economic structure (or economic management structure) — a highly centralized one which neglects regulation through the market in favour of administrative control — is riddled with problems and requires methodical reforms. With the question of restructuring the economy having been raised as early as the mid-1950s, reforms were tried out time and again over the ensuing years. But none yielded the expected results. In October 1976 following the downfall of the "gang of four", the Chinese people, confronted with the great task of modernizing the country's industry, agriculture, science and technology and national defence, inevitably saw the need for the reform of those aspects of the relations of production and the superstructure — including forms of management, and activities and ways of thinking — that were not in conformity with the growth of the productive forces. This task of restructuring the national economy was

unequivocally raised at the Third Plenary Session of the 11th Central Committee of the Chinese Communist Party held toward the end of 1978 and the second and third sessions of the fifth National People's Congress held in 1979 and 1980. And the task takes an important position though the policy decision on the readjusting, restructuring, consolidating and improving of the economy is centred around the readjustment. In fact, reforms have already been undertaken on a local, trial basis. Initial steps taken in two years and more to introduce the partial reforms include extending decision-making power in management to some enterprises in some provinces and municipalities, experimenting with regulation through the market under the guidance of state planning and readjusting the division of power between the central and local authorities in economic matters. Meanwhile, economic departments and research institutes have been engaged in studying how to carry out an all-round restructuring. Because such a reform involves the shifting of the rights and duties among all quarters, and affects the enthusiasm of the central departments, local authorities, enterprises and workers, it is certainly a matter of great concern to the entire nation. Since China, a country with a vast territory and a large population, has relations with many other countries the restructuring of her economy cannot but draw world attention.

I. THE EVOLUTION OF CHINA'S ECONOMIC STRUCTURE

The economic structure of the People's Republic has gone through a process of establishment and revision.

As early as during the war of resistance to Japanese aggression, a number of factories were set up in the rural revolutionary base areas under the leadership of the Chinese Communist Party. Following the victory of the war, some small and medium-sized enterprises were taken over from the

Japanese aggressors and the puppet regime. But since the whole country remained to be liberated, conditions were not ripe for a unified management of all those enterprises by the central departments. A centralized leadership was effected only within the various liberated areas where the economic and financial work was conducted in accordance with the local conditions. The enterprises, meanwhile, were managed independently with each relying on itself to handle the production and marketing of its products.

Following the founding of the People's Republic in 1949, the national economy entered a period of rehabilitation. The bureaucrat-capitalist enterprises were confiscated and turned into state-owned enterprises. Land reform was completed. But the industry and commerce controlled by the national bourgeoisie and the individual economy remained to be transformed. The national economy at the time included five sectors — the state-owned economy, the state-capitalist economy, capitalist economy, the semi-socialist co-operative economy and the individual economy. To overcome this decentralized state of the economy, frustrate the economic blockade imposed on China by the imperialists, check inflation and strive for a fundamental improvement in the economy, the policy of a unified control and leadership by the central government was implemented throughout the country. It was stipulated that all localities and departments must place their financial and economic work under the unified control of the central government and all the sectors of the national economy were to have a division of labour and coordination under the guidance of the state-owned economy. In this period, the enterprises were still being managed independently.

To meet the needs of the political and economic developments, the centralized leadership by the central authorities was further strengthened during the First Five-Year Plan period between 1953 and 1957. A centralized economic management structure patterned after the Soviet model gradually took shape. Except for those in North China, the industrial enter-

prises had been placed under the control of the greater administrative areas before 1953 (at that time the country was divided into the North China, Northeast China, Northwest, East China, Central South and Southwest China areas). In 1954, the areas were abolished and the big state-owned enterprises were gradually placed under the direct leadership of the central departments. By 1957, such enterprises numbered more than 9,300 (as against 2,800 in 1953). Plans for the state-owned industry, transport and communications and capital construction were laid down chiefly in the form of mandatory directives for the grass-roots level to fulfil. Following the completion of the socialist transformation, agriculture, handicrafts industry and the capitalist industry and commerce were more and more under the direct control of state plans. The types of materials subject to the unified distribution by the State Planning Commission and other central departments increased from 227 in 1953 to 532 in 1957.* About 90 per cent of the capital construction investment was arranged by the central departments. Under such a highly centralized structure of economic management, the localities and enterprises enjoyed few rights and interests and the higher departments had final say in such matters as the enterprises' labour arrangement, finance and material, as well as in production, supply and marketing of their products. Even the basic depreciation funds of the enterprises had to be handed over to the central departments under the state budget.

* Producer goods placed under unified distribution by the central departments fell into two categories according to the degrees of their importance: those directly under the control of the State Planning Commission (such as rolled steel, copper, lead, aluminium, and other non-ferrous metals, timber, cement, coal, motor vehicles, metal-cutting machine tools, industrial boilers, etc.) and those under the control of the ministries. The number of producer goods under the unified control of the central departments was 227 (112 by the SPC and 115 by ministries) in 1953 and reached 532 (231 by SPC and 301 by ministries) in 1957.

Experience has shown that at a time when the country's economy was at a very low level of development and the economic structure was relatively simple, centralization was beneficial to the concentration of the limited capital, materials and technical force on major construction projects. Generally speaking, the country's national economy grew normally and steadily in the First Five-Year Plan period. This in a measure should be attributed to the centralized control that ensured the completion of key projects.* However, such a highly extensive centralized economic structure was so rigid that it fettered the initiative of the localities, particularly the enterprises, to the detriment of the development of production. The more the economy developed, the more obvious the defects became and the more acute the ensuing conflicts with the requirements of the growth of the productive forces grew.

In the light of this state of over-centralization, Comrade Mao Zedong in 1956 in his "On the Ten Major Relationships" said: "It's not right, I'm afraid, to place everything in the hands of the central or the provincial and municipal authorities without leaving the factories any power of their own, any room for independent action, any benefits." The question of restructuring the economy was raised around 1958, and reforms in some aspects were tried out. The central theme of that reform was extending the power of the localities. The concrete measures were: (a) Placing most of those enterprises directly affiliated with the central departments under the control of the localities. Between March 1958 and the end of that year, the number of enterprises directly under the control of

* It must be noted that the comparatively smooth growth of the country's economy during the First Five-Year Plan period was also due to the attention given to overall balance in planning. Another reason was that since the socialist transformation of ownership of the means of production had not been completed, state planning was indirect for the capitalist industry and commerce, individual handicrafts and agriculture. This meant greater attention to the utilization of the market and the law of value which helped compensate for the rigidity of the planning.

the central departments dropped from 9,300 to 1,200, or an 87 per cent decrease. (b) Cutting back the scope of the materials placed under the unified distribution by the central departments. The number of such kinds of materials decreased from 532 in 1957 to 132 in 1958 or by 75 per cent. And (c) extending the power of the localities in planning. It was stipulated that as long as the localities undertook to fulfil the state plans for production, capital construction and the delivery to the state of raw and other materials, equipment and consumer goods, they were permitted to make adjustments in the production quotas of local agriculture and industry and to include in their plans a target "they expected to reach" on top of "the target they were obliged to fulfil". Local authorities also were given the power to approve capital construction projects. As a result, the proportion of projects with local investment in the state budget rose from 10 per cent in the First Five-Year Plan period to 50 per cent in 1958. Meanwhile, enterprises were allowed to keep a percentage of their profits so that they had greater financial power.

All these measures helped encourage local authorities and enterprises, and for a time local industry mushroomed. But there were also serious problems. The most notable one was a disruption of the existing relations among production, supply and marketing. Many of the enterprises now under the control of local authorities were big ones vital to the national economy and people's livelihood. But under the administrative structure of the time, they were in the hands of the provincial, municipal or even of county authorities who lacked an overall knowledge of the whole country and the necessary experience to run modern industry. The result was that normal relations of coordination were disrupted, lines of production were changed haphazardly and production tasks were increased without bounds — all hampering the normal operation of those enterprises. Moreover, after the central planning department and other central departments turned over part of their power to the lower levels, no appropriate efforts were made to

strengthen overall balance through unified planning. The practice of including two targets in plans caused the adding of production quotas in planning at every lower level, which meant no plans at all. Capital construction projects were started at will and so were new workers recruited. Each production unit went its own way. As a result, the limited material and financial resources were scattered and the construction was reckless and enormously wasteful, especially in some parts of the country where people started building everything imaginable. The hasty granting of more power to the localities, plus the erroneous practice of encouraging over-ambitious targets, rash guidance and the "communist wind", disrupted the proper management structure. The work to achieve overall balance slackened, causing serious imbalances in the national economy and a sharp drop of the country's industrial and agricultural production.

To rectify this situation, the central departments in the latter half of 1959 began to take back the factories originally handed down to the localities. By 1960 the number of enterprises managed by the central departments increased to 2,000 and the number of the kinds of materials placed under the unified distribution by the central departments rose to more than 400. Beginning in 1961, the policy of readjustment, consolidation, filling out and raising the standard of the national economy was implemented. To meet the need of readjusting the national economy and strengthening the overall balance in the economic work, the Party Central Committee once again emphasized the importance of centralized and unified leadership and the necessity of concentrating economic power in the Central Committee, the greater area bureaus of the Central Committee and the provinces, municipalities and autonomous regions — particularly in the Party Central Committee and its greater area bureaus. There were rearrangements in the distribution of power in labour management, finance and material supply — the power originally handed to the provinces, municipalities and autonomous regions by the central

departments, and to the prefectures, counties, cities and districts by the provinces, municipalities and autonomous regions. Whatever authority had been unduly given to the localities was taken back. After these measures were taken, the economic order was virtually restored to what it had been before 1957. Centralization went even farther in certain fields. In 1963 the enterprises under the administration of the central departments exceeded 10,000, and the materials placed under the unified distribution by the central departments again increased to more than 500. The power of approving capital construction projects also returned to the hands of the central departments. Meanwhile, a number of trusts were set up on a trial basis by the central departments and the localities under the principle of coordination among specialized groups.

These measures did play a positive role in overcoming the temporary difficulties, adjusting the relationships among different economic sectors and quickly rehabilitating the economy. However, they did not solve the problems originally existing in the economic structure. So, as the economic situation improved, the old problems of over-concentrated power and rigid control in the centralized administration again became obvious.

Consequently, measures were taken after 1964 to give some power of economic management to the localities; they enjoyed greater independent decision-making power on matters related to material supply, finance and investment. The first step was to hand over to the localities the power over capital construction investment in the 19 non-industrial departments of agriculture and animal husbandry, agricultural machinery stations and repair network, land reclamation, forestry, water conservancy, weather forecasting, aquatic products, transport and communications, commerce, banking, higher education, primary education, public health, culture, broadcasting, sports and physical culture, science, urban construction and supply and marketing co-operatives. According to a definite base, the state allotted a lump sum for investments to the provinces, municipalities and autonomous regions

every year without specifying which economic departments were to make the investments, what purpose they were to serve or what projects were to be started. Then in 1966, the state let the localities dispose of practically all the products of small enterprises, mainly the small iron and steel workshops, cement plants, chemical fertilizer plants, coal mines and agricultural machinery plants. For example, all the rolled steel turned out by a small steel plant with an annual capacity of less than 10,000 tons was entirely at the disposal of the localities. In the field of financial management, local authorities were given the power to dispose of all the depreciation funds for the fixed assets of local enterprises. The financial resources for emergency use at the hands of localities were appropriately increased and so were the reserve funds for the provinces, municipalities and autonomous regions. As long as the state plan was fulfilled, the power of the localities and departments in the distribution of material supplies was extended.

Further measures were taken in 1970 to extend part of the economic power from the central to the local authorities. The State Council, in the Outline (Draft) of the Fourth Five-Year Plan, put forth a tentative idea for a much broader structural reform. The main idea was to put enterprises under the control of local authorities, to leave them solely responsible for capital construction, material distribution and revenues and expenditures and to work out economic plans through a process in which under the unified leadership of central authorities the plans were first put forward by the lower levels and then drawn up together by the higher and lower levels, with the central departments playing the main role and local authorities participating in the work. In accordance with this concept, from 1970 onwards, most of the enterprises belonging to the central departments were once more handed over to the local authorities. In 1973, the number of enterprises remaining under the control of the Central Government was less than 2,000. Even major enterprises such as the Anshan

Iron and Steel Company and the Daqing Oilfield were handed over to the provinces to manage. On the question of the power over material distribution, the local authorities were responsible for supplying the materials to some of the enterprises which the central departments had handed over to local authorities. The number of the types of materials under the unified distribution by the central departments decreased from 579 in 1966 to 217 in 1971. Local authorities were also given greater leeway in financial power. Jiangsu Province in 1977 tried out the method by which it would share its revenue with the central authorities according to a fixed ratio and would be responsible for the balance of its own budget.

These measures more or less improved the economic relations between the central departments and local authorities. Nevertheless, during those ten years of the "cultural revolution" between 1966 and 1976, the correct practices were condemned as "revisionist". With reasonable regulations abolished as "dogmas and straightjackets", anarchy prevailed and economic management was in chaos throughout the country. At the same time, in the reforms which still did not touch the inherent defects of the economic structure itself, many major enterprises which were unduly handed over to the local authorities were in fact still run by the central departments because it was beyond the localities' capability to manage them. In 1975, about half of the enterprises which had been handed over to the localities to manage were still under the control of the central departments which were responsible for arranging the enterprises' production tasks and material supply. The enterprises found things difficult for them because they had to accept leadership from different quarters. This period saw a dislocation in unified planning, in the rational distribution of production and construction and in the balance between supply and marketing of major products, and an even more serious problem caused by the efforts of various departments and localities to become all-embracing independent entities. The

shocking repetitions in production and construction did a tremendous damage to the national economy.

The overall picture of the reforms introduced over the twenty-odd years to China's economic structure shows a process of repetitions alternating between centralization and decentralization of economic power. Although reforms were tried out with some success and experience was gained, some defects remained — over-centralization of power in the hands of the state in the economic structure, little power for enterprises and economic management mainly by administrative means. The fundamental problems were never resolved. Why? The main reasons are:

First, the reforms centred only around the question of the delineation of power between the central and the local authorities without touching the question of relations between the state and the enterprises. And all enterprises were still run by administrative means whether they were controlled mainly by the central departments or the local authorities. This left unsolved the fundamental question of giving proper power of operation and management to the enterprises to realize the initiative of the producers themselves to the full.

Secondly, all the reforms were aimed at finding more effective methods of administrative management without giving proper consideration to organizing the economy in accordance with internal economic relations, or, in other words, to managing the economy by economic methods. During the reforms, no attention was given to using economic organizations, economic levers and economic decrees to manage the economy, whether stress was laid on centralization or decentralization, and whether the enterprises were under the control of central departments or local authorities. Consequently, the economic life of the country was both rigid and chaotic and economic results remained poor.

Therefore, strictly speaking, the reforms cannot be considered true reforms because they did not touch the root cause of the problem but only did some mending within the old

framework. Rather, they were experiments which could not bring essential changes to the existing economic management structure which remained highly centralized, were dependent mainly on administrative methods and disregarded the regulatory functions of the market. That is why the reforms inevitably fell into the vicious cycle of "centralization — rigidity — criticism — decentralization — chaos — centralization".

A fundamental reform of the economic structure is necessary if it is to be freed from this vicious cycle. The numerous reforms in the past have proved a valuable truth — it will never do to fall into the old rut again. Success is impossible unless a new path of restructuring the Chinese economy in conformity with its actual conditions is found by a deep study of the root cause of the defects of the country's economic structure, a summing-up of the positive and negative experience of the past in the reforms, and an analysis of the lessons of other socialist countries.

II. MAIN PROBLEMS IN THE ECONOMIC STRUCTURE

To find the ways of restructuring the economy, Chinese economic circles and economists have in recent years made all sorts of analyses of the characteristics and shortcomings of the economic structure. At first, some economic workers held to their past understanding that the main problem with the structure was an improper balance of power between the central and the local authorities. And those who held this view could further be divided into two groups: some thought that the main problem lay in scattered economic management resulting from an insufficient power in the hands of the central authorities and an excessive amount of power over finance and materials in the hands of the localities. Others thought just the opposite. They believed that the main problem was still overconcentration of power in the central authorities which fettered the initiative of the local authorities to the extent that

they could not do even the slightest thing without permission from central authorities.

Through extensive discussions, however, more and more people came to see that the primary problem with the current economic structure lies not in the relations between the central and the local authorities at all, but rather in the relations between the state and the enterprises. Naturally, in such a big country as China, problems do exist in the important relations between the central and the local authorities. On the one hand, the central authorities have not done well what they are duty-bound to handle, such as the unified planning by the state, the nationwide overall balancing in the economic work and a rational distribution of the productive forces. On the other, they have meddled too much with things which should be under the control of the local authorities such as the agricultural production, marketing, urban construction, local undertakings and expenditures. These problems need to be solved. But the principal problems with the country's economic structure do not lie here but rather in the poor handling of the relations between the state and the enterprises. There is too much state control and too little power in the hands of the enterprises; unified state planning is too rigid and regulation through the market not sufficiently used, and administrative instead of economic methods have been employed to manage the economy. Such an economic structure is incompatible with the objective demands for development of the socialist economy. This is shown mainly in the following aspects:

1. An economic structure in which the enterprises are denied a relatively independent status but are merely auxiliaries to the administrative institutions at all levels is incompatible with the need for developing the socialist commodity economy. The socialist economy in this country is based on the public ownership of the means of production which takes two forms: the ownership by the whole people and collective ownership. And in China, the ownership by the whole people

takes the form of the state ownership. The state administrative agencies are representatives of the whole people and any enterprise, whether it is under the control of the central authorities or the local authorities, is subordinated to the central or local administrative institutions. Viewed from their origin or their essence, the enterprises of collective ownership constitute the co-operative economy formed by working people voluntarily on the basis of mutual benefit in a socialist society. But in reality, the collective-owned enterprises in both cities and the countryside are also subordinated to the administrative institutions of the higher level. Under such a structure, although the administrative institutions at various levels are not directly responsible for the profits and losses of the enterprises, they are invested with the power to determine how the enterprises should engage in production, obtain material supplies and market their products and how they should use their labour force, financial resources and materials. The direct organizers and producers have no power over these things.

Let's take a look at the state enterprises first. They simply have no decision-making power in management at all. To be more specific: (a) The enterprise has no power to make plans. The state (including the central and local departments in charge of economic affairs) issue directives about production targets. The day-to-day business involved in production within an enterprise is under the strict control of the departments in charge, whether the business is important or not. (b) The enterprise has no power to market its products. The state handles the distribution of the products of an enterprise through a unified system of state purchase and marketing. What an enterprise produces is almost entirely purchased and then marketed by the state commercial, material supply or foreign trade departments. (c) The enterprise has no power to renew its fixed assets. In the past, the enterprise had to deliver to the state all of its depreciation funds for its fixed assets. Even under the current regulations, the enterprise has to hand to the state treasury half of its depreciation funds and there are

all sorts of restrictions on the use of the remaining half retained by the enterprise. This leaves the enterprise negligible depreciation funds to renew its equipment. (d) The enterprise has too little financial power. In the past, the enterprise had to deliver all of its profits to the state which also made up for any losses. The enterprise virtually had no money in reserve for any independent action. Take the Beijing No. 1 Machine Tool Plant for example. The management of that plant had the power to spend on its own 50 yuan at most. Any expenses exceeding 50 yuan would have to be approved by the relevant administrative office at the municipal level. (e) The enterprise has no power over labour management. The office workers of an enterprise were controlled by the local authorities, and the workers by the labour department. The enterprise often could not get the personnel it needed while being allocated persons it did not need. For instance, the Shanghai No.6 Cotton Textile Mill once needed some weavers. The labour department gave it 95 workers, about a dozen of whom were too weak or disabled to be weavers. The mill's request that the labour department take back those dozen workers for reappointment elsewhere was refused. (f) The enterprise also has no power to dispose of its idle equipment.

Now let's look at the urban collectively owned enterprises. Nominally, their means of production are collectively owned, but actually they are at the disposal of local state departments in charge which treat them as state enterprises. They can readjust and reorganize them, merge them with others and change their lines of production. They also give the collective enterprises mandatory economic quotas and production plans and even make overall arrangements of their labour force. Collectively owned industrial enterprises have to get the approval from the local departments in charge for actions like expanding the scope of their reproduction and undertaking new capital construction projects. Although the enterprises carry out independent business accounting, in fact it is the departments in charge that are responsible for the enterprises'

losses and profits. The principle of collective ownership is also discarded in the distribution of the enterprises' income. Those enterprises under the administration of the district authorities or higher levels have to turn over all of their profits after taxes to the departments in charge which then make unified arrangements for the distribution and use of the profits, a process which had no direct bearing on the workers of the enterprises. Those enterprises under the administration of neighbourhood committees or communes have to deliver some, most or even all of their profits to the departments in charge. Even if some enterprises are allowed to keep most of their profits, they have no right to use them. Profits are not to help the enterprises themselves but rather to meet the needs of an entire district, which means that the profits are actually at the disposal of the local state agencies or their representatives. Therefore, collective enterprises in the urban districts had to a great extent left the orbit of collective ownership, having become almost as subordinated to administrative institutions as state enterprises.

Similar things have happened to the collective ownership of the rural people's communes. The Chinese rural people's commune operates on three levels of ownership with the production team acting as the basic accounting unit. As a matter of course, the independence of the people's communes at different levels, particularly the production teams, should have been respected and maintained. But that was not the case. It was up to the local departments in charge to decide such production team matters as what and how to grow, even how to space their crops, when to sow, when to irrigate, when to apply fertilizer and when to harvest. Peasants reacted to this phenomenon with remarks like: "A county has only one production team leader — the county Party secretary" and "We have the right to work but no right to decide how". (However, one county Party secretary in Jiangsu Province said that even he didn't have the full power to guide the county's agricultural production. He had to listen to orders from the prefec-

tural and provincial committees. So, actually a county "has only half a production team leader".)

The enterprises, production teams included, in their position as auxiliaries to administrative institutions could not practically and opportunely solve questions in the light of market demand and their own actual conditions. Instead, they had to seek approval for doing everything, big and small, from the higher departments which were divorced from the frontline of production, had no responsibility for the results of the operations of the enterprises and often gave impractical and disconnected mandatory directives. The enterprises were often at a loss to know what to do. The Seamless Steel Tubing Plant in the city of Chengdu, Sichuan Province offers an example. The plant got its mandatory production targets from various central and local departments. Its output quota was decided by the Ministry of Metallurgy, its standards for production output value, profit and labour productivity were decided by the municipal metallurgical bureau and financial bureau and the fuel and power supply were allocated by the relevant provincial departments. Various standards set were often mutually contradictory or disjointed. The plant was often perplexed. Trying to seek a balance among the standards in 1980, it found that the quota for profit was in effect 12 per cent higher than the output target whereas the quota for the allocation of fuel was 32 per cent short of the actually needed amount. Some enterprise leaders joked that the enterprises were like pitiful little "daughters-in-law" who had to maintain peace under so many "mothers-in-law" instead of concentrating on production.

To make things worse, the leading administrative departments imposed much routine work of a purely administrative nature on the enterprises. Whatever tasks the departments in charge wanted their subordinate enterprises to perform, the enterprises had to set up appropriate offices to implement them. The Chongqing Iron and Steel Company in Sichuan Province, for instance, had more than 20 such offices, some of

which were set up by order of the central departments and some by order of the provincial departments. To staff these offices, the enterprise had to transfer 6 per cent of its workers from their posts in production. With so many "mothers-in-laws" issuing orders, the enterprise was forced to perform many tasks which ought to have been the business of the local authorities, such as arranging and building air-raid shelters, family planning, providing jobs for youths, educational work, militia training, setting up stores, running hospitals and even setting up police stations. Consequently, an enterprise became a "miniature society". A survey conducted by the Chengdu Meters Plant in Sichuan Province shows that the plant used 7 per cent of its office and factory workers to perform the tasks of the "society" which also spent 4 per cent of the plant's profit each year. Since the enterprise had no independent power in management and at the same time was bogged down by numerous unnecessary administrative and social tasks, it was obviously impossible for it to take the initiative in improving management and increasing production.

2. An economic structure in which different groups from high to low levels operate independently of one another as a result of managing the economy according to administrative systems and divisions cuts off internal relationships in the economy and runs counter to the demands for the large-scale socialized production which is an organic whole based on sophisticated divisions of labour and close coordination among different departments and links of production. Since socialist production is still commodity production, the relationship of division of labour and coordination manifests itself mainly in the connections of supply and marketing between different enterprises, i.e., in commodity exchange. But in this country, the enterprises were managed according to administrative systems and divisions. For example, the machine-building industry was divided into two systems, one under the industry and transport and communications office of the State Planning Commission and the other under the office of the na-

tional defence industry. The two systems run down to the level of the provinces, municipalities and autonomous regions. The enterprises were under the control of the central ministries or bureaus, provinces, municipalities, autonomous regions, prefectures, province-governed municipalities, counties or even urban districts and neighbourhoods. In other words, the whole machine-building industry was thus sliced up into many blocks, some belonging to the national defence departments, some to civilian departments, some to the central departments and some to local authorities. They operated separately from each other. This separation severed the internal, cross economic connections or the commodity and money relations, between different enterprises, trades and localities.

This structure of economic management based on administrative systems and divisions has produced many flaws in the country's economy.

First, this structure with its emphasis on vertical leadership created heavy barriers among different departments, trades and areas hampering the development of proper economic connections. The barriers between different areas were found not only between provinces, but also within the same province. The products of Sichuan's machine-building industry, for instance, ranked among the best in China but they ran up against protectionist policies in some provinces. At the same time, some cities in Sichuan Province refused to allow Shanghai and Tianjin to hold trade fairs of light industrial goods there on the pretext of protecting the local light industry. The Sichuan Walking Tractor Plant had a powerful competitive edge because it was one of the best Chinese plants in terms of the prices, quality and output of products. But it was blocked in trying to market its products in some cities in its own province. There were many different ways of preventing the tractor sales, including a flat refusal to let the tractors enter the cities, a warning to local banks that they should not handle the remittances involved in any sale and the stipulation that no licence or diesel oil should be supplied for the walking

tractors unless they were bought from local companies. A typical example of the lack of economic connections between different departments was provided in Anhui Province by the Wuhu Iron and Steel Works and its next-door neighbour, the Wuhu Lianmeng Chemical Fertilizer Plant. To do things most economically, the fertilizer plant should have gotten the coke it needed from the works which also produced coke. However, because the two units belonged to two different systems — one to the metallurgical department and the other to the chemical industry department — they had different channels of material supplies. The Wuhu Iron and Steel Works had to ship coke to small iron and steel works hundreds of kilometres north of the Changjiang River. Meanwhile, the Lianmeng Chemical Fertilizer Plant had to get its coke supply from the cities of Huainan and Huaibei hundreds of kilometres north of the Changjiang River. What a waste! The divisions between the departments and the localities were also very restricting. A case in point was the Shanghai Textile Machinery Plant which was originally run by the Ministry of Textile Industry and later handed over to the Shanghai municipality though the ministry still made decisions on its products and production tasks. In recent years, the plant's foundry workshop had to operate under capacity although the orders for foundry work were too many for Shanghai's light industry and machine-building industry to fulfil. This was because the production tasks of the plant must be arranged by the ministry and not by the local authorities.

Secondly, such a structure excluded direct contact between the departments, trades and localities, forcing them to build a complete system within themselves which prevented the multipurpose utilization of materials and the coordination among specialized units. Take maintenance work for example. Almost every factory had its own complete set of equipment and workers to handle the maintenance of its own equipment, for otherwise it would have been unable to carry on production when its equipment was out of order. But the rate of use of this

maintenance equipment was rather low. In Beijing, 28.4 per cent of the city's machine tools were used for maintenance, not to mention many other sets of special equipment for the same purpose. As workers of many factories were on one shift a day, one-third of the equipment used for maintenance always lay idle. A survey of seven plants in Beijing showed that the maintenance men accounted for 10 to 20 per cent of the total number of workers in these factories and their labour productivity was very low because they did not have enough work to do. Meanwhile, many factories often had difficulty in keeping their machines in good shape for lack of maintenance equipment. The oxygen-making equipment in Beijing provided another example. The rate of utilization of the 70-odd sets of equipment in 40 oxygen-making factories and shops was no more than 60 per cent, a sign that the city's capacity of oxygen production already exceeded the need. Yet some factories under construction still included oxygen shops. Meanwhile, a survey of 16 factories in Beijing showed that eight of them produced oxygen and threw away nitrogen whereas the other eight produced nitrogen and threw away oxygen. This proved that failure to make multi-purpose use of materials had resulted in great waste.

Thirdly, such a structure also caused repetitions in production and capital construction, leading to a waste of human, material and financial resources. For example, every province, municipality and autonomous region and even every county wanted to satisfy its need for iron and steel by itself. Consequently, many small iron and steel works were set up in disregard of lack of resources and means of transport. They cost large amounts in investment while achieving very low economic efficiency. Sometimes such small iron and steel works were built just beside big ones. In and around the city of Jinan (Shandong Province) with a circumference of twenty kilometres, there were four iron and steel works of varying sizes belonging to the provincial, municipal or county industrial departments. Locked in keen competition for the supply of

iron ore and coal, all the four plants operated under capacity and at a loss. The motor industry was another example. A survey in 1979 showed there were 130 automobile plants in the country. After the initial readjustment, there were still 100 plants. Twenty-six provinces and municipalities produced motor vehicles; seven of them each had at least five automobile plants (for instance, eight in Jiangsu and nine in Shandong). Among the 100 plants, 31 made the Jiefang-model trucks, 14 the Yuejin-model trucks, 23 the Beijing-130-model trucks, 9 the Huanghe-model trucks and 6 the Beijing-model jeeps. Among the 100 plants, too, 17 had an annual capacity of less than 100 trucks. A vast difference in costs and prices existed among trucks which were of the same type but produced in different batches. For example, the Nanjing Motor Vehicle Plant produced 11,811 2.5-T Yuejin-model trucks a year at the cost of 9,698 yuan per truck; the trucks were sold at 11,000 yuan each. The Loyang Motor Car Repair Plant produced 100 trucks annually at the cost of 17,800 yuan per truck and sold them at 15,500 yuan each, sustaining a loss of 2,300 yuan on each truck. The Beijing No. 2 Motor Vehicle Plant produced 7,900 2-T Beijing-130-model trucks annually, each costing 9,966 yuan and selling for 13,000 yuan whereas the Harbin Motor Vehicle Plant turned out only 51 such trucks annually, incurring a loss of 8,000 yuan each truck which cost 33,000 yuan and sold for 25,000 yuan.

There were many similar examples. They all showed the harmful economic results caused by a lack of cross contact between enterprises which found it difficult to deal with each other. Had the enterprises been permitted to make direct contacts, they could have solved many things promptly. Under such a management structure — even if things went smoothly — it took too much time to settle anything because decisions had to be handed down from level to level while requests were submitted upward for approval from level to level. Obviously, such an irrational economic structure was bound to hamper

the improvement of the management of the enterprises and the growth of the national economy as a whole.

3. An economic structure in which mandatory plans are issued by the higher administrative to the lower level without leaving any room for the role of market mechanism is incompatible with the complicated and changeable needs of society. In deciding what and how much to produce, an enterprise cannot give full consideration to the actual needs of society but acts mainly upon mandatory plan targets decided by a superior department. The national economy is extremely complicated. There are enterprises owned by the whole people and enterprises collectively owned. Industrial enterprises alone number in the hundreds of thousands. The rural people's communes include over four million production teams. The products are still more numerous in terms of varieties and specifications. Both the technical conditions of production and the demands of society are constantly changing. In theory, production according to plan should be the same as production according to needs. Yet under the actual circumstances, a unified planning centre divorced from the market mechanism simply could not accurately reflect the complicated and constantly changing needs of society for goods which run into the tens of millions of varieties. Consequently, things produced according to plans issued by the superior departments more often than not failed to meet the needs of society. On the one hand, the society could not get what it needed and on the other, things not needed by society were being produced in large quantities, resulting in huge stockpiles. What was more, most of the products were purchased and marketed entirely by the state and the enterprises got most of the producer goods they needed through unified state allocation and distribution. Since producers did not deal directly with consumers, producers were not well-informed about the needs of consumers who for their part could not exert pressure on production. So when a planned production target did not conform with actual needs, the defect could not be quickly enough reflected through the market

mechanism to be corrected in time. As a result, the problem of disconnection between production, supply and marketing long remained unsolved. Under such a planning system, even when a product was not marketable, the enterprise that produced it was not in a position to change its line of production. A case in point was the Tianjin No. 3 Cotton Mill. In 1978, it produced a medium-length fibre polyester cloth which was sluggish on the market. The mill sent a request to its superior department for permission to switch over to the production of other goods. It waited for two months and still had not obtained the approval. In the meantime, the mill had no choice but to keep turning out the cloth because, without the approval from above, it had no right to act otherwise. The result was further stockpiling. Another example was provided by the commercial department of the city of Jinzhou with an inventory of 1.41 million pocket knives which would take at least 30 years to sell. But all the same, the industrial department arranged for the production of 400,000 such knives every year. The separation between producers and consumers tended to intensify the contradiction between production and market need. Here was an example. The Guangdong Tractor-Drawn Farm Tools Plant needed large quantities of rectangular steel tubes for making ploughs, harrows and rice harvesters. But to get the tubes from the Shanghai Experimental Steel Rolling Mill, it had to submit its plans to the Guangzhou Municipal Farm Machinery Company, the Municipal Bureau of Electrical and Machinery Industry, the Municipal Metals Company and the Provincial Metals Company, with only the provincial company being represented at the national conference on placing orders for metallurgical products. The farm tools plant was not assured of an adequate supply of the steel tubes since the plans submitted by it had to be passed from level to level up to the provincial company and attempts were made in the process to strike a balance with the plans submitted by other units. Although the plant needed 200 tons of rectangular steel tubes in 1977, it got only 25 per cent of the amount. Meanwhile,

the Shanghai Experimental Steel Rolling Mill had an annual production capacity of 20,000 tons of rectangular tubes but received enough orders for only 2,000 tons each year. An effect of such disconnection between supply and demand was that enterprises were forced to send people to many parts of the country to get the materials they needed by personal connections, bartering and other unhealthy means. It was estimated that every day there were about three million people who were travelling in the country on an errand to purchase materials. A natural gas plant in Yunnan Province in southwest China dispatched a jeep to travel across half the width of the country to get small replacement parts in Yueyang, Hunan Province, central China and in Cangzhou, Hebei Province, north China. The gasoline consumed was worth many times as much as the replacement parts.

4. Under this economic structure with everything controlled by the departments in charge, the enterprises shoulder no economic responsibility and are in no position to stress economic results. This is what is described in the popular saying as "sharing food from the same big pot with iron bowls". The enterprises had to turn over all or most of their incomes, including their net income and the basic depreciation fund, to the departments in charge to which they also turned for the payment of all their expenditures including funds for expanding production and improving the well-being of the workers. The state provided gratis the enterprise with all fixed assets and most of its circulating funds while the enterprise shouldered no responsibility whatsoever for the results of the use of the funds. Also employment in China was life-long. Workers, once employed, were safe with a job for life no matter how they behaved and no matter whether the enterprise needed them. Whether the enterprise was making a profit or running at a loss, workers drew their wages all the same. Since the enterprise had neither decision-making power in management nor responsibility for the economic results, it made no

difference to the material interests of the workers or the enterprise itself whether it was run well or not. This reduced the business accounting to a mere formality. Costs were checked to keep accounts and not to improve economic results by making use of workers' concern for their material interests. Under such circumstances, the enterprise management and the workers naturally showed no enthusiasm for cutting costs, improving the quality of products or increasing variety to better meet the needs of the consumers. The Dalian Refrigerator Plant, for example, produced a piston-type refrigerator, a very old-fashioned model of low efficiency copied from a Soviet model of the 1940s. The designers of this plant did work out a design for a centrifugal refrigerator at least 10 per cent more efficient than the old model. But the new design was turned down by the leadership of the plant on the grounds that the plant had fulfilled its production plans year after year because it was familiar with the old technological process and could guarantee the quality of the old product. The leadership thought that there was no need to take a lot of trouble to turn out a new product. This kind of thing could happen mainly because a new product brought no good to the enterprise and the workers while continuing to produce the old model meant no loss to them. Waste became a common phenomenon when it brought no loss to either the enterprise or the individuals. Neither was held responsible for economic results. A coal mine and a thermal power plant in Hancheng, Shaanxi Province are next-door neighbours. According to the original plan the power plant would get its coal supply directly from the mine by a conveyer belt. However, as the two enterprises developed some conflicts, coal was loaded into more than a dozen trucks and sent to the Hancheng Railway Station five kilometres away. Then the coal was loaded onto the train and hauled back to the power plant. In one year and five months, 2.3 million yuan were spent on all this wasted loading and unloading and transportation which the local people called the "coal parade".

Some economists have attributed these problems with the economic structure to the decision-making system, the regulation system and managerial organization and methods. According to their analysis, the main features and also defects of the economic structure revealed themselves, first of all, in the essentially single state decision-making system in which the concentration of power in deciding economic policies by the state was one-sidedly emphasized in disregard of any independent decision-making power on the part of the enterprises and individual workers over their own economic activities. Secondly, the regulation system operated almost entirely through state planning with the relationships between supply and demand and the fluctuations of market price having nothing to do with the distribution of labour force, material and capital among the various departments. As for managerial organization and methods, the system was purely administrative, conducted mainly by the Party and governmental organizations, not by economic organizations, methods and decrees. This highly centralized economic structure which relied mainly on administrative management and neglected regulation through the market manifested itself in many ways: In production, marketing was decided by production to the neglect of market demand; in circulation, purchasing and marketing were monopolized by the state; in distribution, the state was solely responsible for the income and expenditure of the enterprises. Such a structure put the national economy in a straightjacket, discouraging initiative in all quarters, causing serious waste of manpower, materials and capital, and greatly hampering the growth of the productive forces. For many years, this was a major cause of the slow pace of the growth of China's economy and of the improvement of living standards of the Chinese people.

Chinese economists generally believe that beyond theoretical understandings, the emergence and long existence of such an irrational economic structure has profound historical and social roots.

In the first place, China was a feudal society for a long time. Quite a number of defects in the economic structure stem from such remnants of feudalism as the feudal patriarchal system, the idea of hierarchy and the ideology of natural economy based on the self-sufficiency of a small peasant economy. As reflected in the economic structure, they found expression in the unified control of everything by administrative departments and the rule of "bosses", and the closed-door systems local leaders favoured to the neglect of commodity and money relations.

Secondly, some out-of-date methods were carried over to the People's Republic — methods of economic management practised in the liberated areas during the revolutionary war and methods used to carry out the socialist transformation of capitalist industry and commerce after Liberation. These methods included, for example, the supply system of military communism which, under the specific conditions of the war, was practiced among the troops and cadres; the method of unified purchasing and marketing which was adopted to deal with capitalist industrial enterprises during the period of socialist transformation; the limitations imposed on private merchants' buying and selling goods; and the purchase of all farm and sideline products by no other units than the supply and marketing cooperatives and the state. Many aspects of the economic structure could be traced to those old practices which had been mistakenly considered to be effective under all circumstances.

Thirdly, like the Soviet Union, China won her revolution and began her socialist construction at a time when the level of her productive forces was low. In trying to overcome this backward state within a short time, the two countries had many similar problems. What is more, in the early 1950s when China started its socialist economic construction, the only economic model China had was that of the Soviet Union. That is why the Soviet economic management system with its highly centralized power and its main reliance on administra-

tive control was readily copied by China as the only feasible one in a socialist country.

Finally, many problems with the economic structure had to do with interpretations of theoretical questions about the socialist economy. Under the influence of "Left" errors over a long period of time, many mistaken ideas prevailed. According to them, the socialist economy should be an economy of a hundred per cent public ownership; there was no need to retain several economic sectors at the present stage of socialism while public ownership was in a dominant position. The socialist economy should not be a commodity economy at all but a planned economy pure and simple. There would be no different interests among enterprises of ownership by the whole people which should not carry out commodity exchange with each other. The socialist planned economy should be guided by mandatory plans issued from the superior departments, leaving no chance for the law of value to play a regulatory role. The economic activities of enterprises of ownership by the whole people should be controlled only by state administrative departments, not by economic organizations through economic methods. Collective ownership would be inferior to ownership by the whole people and small collectives to big ones; no importance should be attached to the role of collective ownership and the individual economy at the present stage, and there should be a rapid transition to ownership by the whole people. In short, these mistaken interpretations of socialist economy constituted the theoretical basis underlying the economic management structure under centralized state power and reduced experimental reforms to trifling repair work within the framework of centralized control. An important prerequisite for any effective structural reforms was a serious study of theoretical issues. Only on the basis of a correct understanding of socialism and actual conditions in this country can the correct direction be found and concrete measures and steps taken so that the restructuring of the Chinese economy will advance steadily.

III. ORIENTATION FOR RESTRUCTURING THE ECONOMY AND PROPOSED STEPS TO BRING ABOUT THE CHANGE

Heated discussions on how to restructure the economy have been going on among Chinese economic circles and economists for a few years. As there were different understandings of the main problems, it was only too natural that views diverged on the key question of in which direction the restructuring should proceed. At the beginning, some economic workers argued that the main problems were the insufficient centralization of power by the central authorities and the confusion in the management of the economy. Others said that the main problems were the over-centralization of power by the central authorities, the insufficient power given to the local authorities and the rigid control of the economy. It should be noted that both the confusion and rigid control existed through the flaws in the economic management structure as well as through the disruption of the economy during the ten years of the "cultural revolution". From the point of view of ending confusion in the management of the national economy, one group said that in restructuring the economy the principle of centralized management mainly by the central authorities should be upheld while extending the power of the local authorities and enterprises in a proper way and taking some economic measures and exploiting all economic means within certain limits. As concrete measures, they proposed that all major enterprises and big enterprises with nationwide supply production and sale networks should be controlled by the central ministries, all major production and construction quotas should be dictated by mandatory directives from the superior departments and the state should have the power to distribute all major producer and consumer goods, make all investments in capital construction and control the labour force, prices and foreign trade. From this base, specialized corporations would also be organized, the decision-making

power of enterprises extended and revenues of local governments increased to meet urgent needs. If these proposals were to be adopted, the central ministries would take back quite a number of enterprises, the state would distribute a greater variety of goods and materials and the ministries and commissions under the State Council would further strengthen their structure.

Pointing to the rigid control of the national economy by the central authorities, the other group argued that the restructuring of the economy should be aimed at decentralizing the power so that the economy will be managed mainly by the authorities of provinces, municipalities and autonomous regions under the unified leadership of the central authorities. According to their concrete proposals, while the central government should control the railways, civil aviation, main telecommunication lines, shipping in the Changjiang River, marine shipping, power grids, oil and gas pipelines, defence industries, major scientific research institutes and major institutions of higher learning, all other enterprises and institutions should be controlled by the local governments. Production plans should be prepared mainly by the provincial governments; figures or percentages should be worked out for the revenues to be delivered by the local governments to the central government; and so should base figures for the goods to be supplied or received by the ministries and localities. And they should remain unchanged for a number of years. When there are shortages or surpluses of goods in terms of quantity or variety in any department and locality, the problem can be solved by commodity exchange between provinces or between provinces and central ministries or by means of import and export trade. And joint or stock companies can be formed among the provinces.

The measures contained in the two opposing views are positive in the sense that they are proposed from different angles to solve the problems of rigidity and confusion in the management of the national economy. But as general ideas for the

restructural reform they have one fatal weakness in common, that is, both views fail to break away from the conventional system of management by administrative means of dividing power between the central and local authorities. Experience over two decades or more has shown that management by administrative means breaks the inherent connections among the different branches of the economy, fails to make full use of manpower, material, financial and other national resources, and leads to blockades by one department or locality against another and the establishment of separate systems by each department or locality. Economic management depends mainly on administrative means while no one shoulders economic responsibilities. A huge administrative setup has to be established instead of giving due rights to the enterprises and liberating their productive forces. In consideration of these weak points, the majority have agreed that the two views provide only temporary, not fundamental, solutions to the problems of rigidity and confusion in the management of the national economy and therefore neither can be accepted as the correct approach to restructuring the economy.

Through discussions, the Chinese economic circles and economists came to realize that whatever approach is taken to restructuring the Chinese economy, it cannot be separated from the socialist reality in China. But how to understand the reality? The views expressed over the restructuring of the economy can be summarized as follows:

First, other economic sectors should be allowed to exist provided the socialist public ownership occupies a predominant position. China is a socialist country based on public ownership. Over the past 30 years, it has achieved initial success in establishing a fairly comprehensive industrial system and a national economic system. However, her population of one billion includes 800 million peasants, most of whom are still doing manual work on the whole. She still is far behind the advanced countries in the industrial production level and the degree of socialized production is not yet high. The produc-

tive forces are unbalanced among the different localities, departments and production units. In keeping with the present level of development of the productive forces, the ownership of the means of production China can introduce must be a multilayer system with the public ownership as its dominant factor. In real economic life of China today, there are economic sectors with varying degrees of public ownership (that is, sectors under the ownership by the whole people and those with fairly high or relatively low levels of collective ownership), economic integration in various forms, the urban and rural individual economy and non-socialist economic sectors (enterprises with investments made by foreign and overseas Chinese businessmen). The economic management structure, in essence, is the concrete expression of ownership. Therefore, the structural reform must first of all suit the co-existence of multiple economic sectors.

Second, restructuring the economy must suit the needs of the development of the socialist commodity economy and reform the old structure and practices that are incompatible with the commodity economy and reflect the demands of the feudal or natural economy. The Chinese revolution was won in a country with backward productive forces and an underdeveloped commodity economy. Commodity economy should continue to exist and grow in socialist China, but it is a socialist commodity economy based on public ownership, different from the commodity economy under capitalism. For a long historical period to come, the task China faces is not to abolish commodity economy but to strive for the full development of the socialist commodity economy. It is essential to combine regulation through planning with regulation through the market by making full use of the different branches of the socialist commodity economy which are separated from each other and at the same time can be integrated within the framework of the whole society on the basis of public ownership. In this way, the state can consciously apply the law of value to production, circulation and distribution through the econom-

ic levers of price, tax, credit and wages and all economic activities will reach the expected goals set in the state plans and serve socialist construction.

Third, restructuring the economy must embody the principle of material interests. The socialist economic relations are relations of interests, that is, they are relations of material interests among the state, the collectives and the individuals. The old structure of economic management has often failed to correctly handle the relations of economic interests in different quarters. In particular, failure to pay enough attention to the material interests of the enterprises (including the production teams) and individual labourers has discouraged them and in fact weakened the socialist relations of production and hindered the development of the productive forces. Restructuring the economy, in a certain sense, is intended to find an appropriate mechanism to readjust the relations among the overall, local and personal material interests. So far as the material interests of the individual labourers are concerned, the most important thing is to adhere to the principle of "to each according to one's work" and oppose egalitarianism. It is necessary not only to give an enterprise the decision-making power in economic management and make it assume its own economic responsibilities, but also to link its collective economic interests with its economic performances. Only in this way is it possible to realize the initiative of all sides and give an impetus to the economic growth and the rapid development of the social productive forces.

By evaluating the experience and lessons in the evolution of the economic structure in China and getting a better understanding of her socialist reality, Chinese economic circles and economists gradually have come to agree on the principles guiding the structural reform. They are of the opinion that while upholding the dominant position of the public ownership of means of production, the fundamental structural reforms should be carried out in three ways to break the fetters

of administrative control and of notions of the natural economy and to develop the commodity economy and the large-scale socialized production.

(a) The economic policy-making system should be changed from a unitary highly centralized state system to a multi-layer system involving the state, the economic units and the individual labourers.

(b) The economic regulation system should be changed from a unitary system of regulation through planning to one which combines regulation through planning and regulation through the market. That is, full play should be given to the market under the guidance of planning.

(c) As far as organizational matters and methods are concerned, economic management should depend mainly on economic organizations, means and decrees instead of Party and government bodies, administrative organizations and means.

These fundamental reforms are designed to handle correctly the relations of economic interests among the state, the economic units and individual labourers, to increase enthusiasm of all sides, to give coherent organization to all kinds of economic activities and to achieve the best economic returns from the amount of labour consumed.

Basing themselves on this general approach to restructuring the economy, economic specialists have proposed tentative ideas to bring about the reforms.

(1) Change the enterprises from appendages of the ministries and local authorities to relatively independent economic units. This is a big reform intended to liberate the social productive forces and give full play to the role of the enterprises. In other words, the enterprises have the power to engage in production, exchange and other economic activities independently according to the needs of society and the law of value within the limits permitted by policy and law and under the guidance of the state plans. This ensures that they will keep independent business accounting and assume sole

responsibilities for their profits and losses. After paying taxes, expenses and the principal and interest on the loans they borrow, the enterprises can use their profits for production development funds, welfare funds, funds for bonuses and dividends, and reserve funds, all at their own disposal. Providing they pledge to meet state quotas, the enterprises can work out their own plans based on market needs. They can choose sources of supply, buy what they need, market their own products and in some cases after approval export their goods directly. The enterprises have, within the limits of the state stipulations, the power to determine wage forms, promotions and benefits for their workers and staff and to hire them or fire them if they are not needed. Allowances for the dismissed will be paid from social insurance funds. Within given limits, workers and staff have the right to choose their jobs. Rural communes, brigades and teams have the power to engage in coordination based on division of labour, integration among special lines of production and other forms of economic activities under the principle of suiting local needs and making full use of favourable conditions. While guaranteeing the fulfilment of the state purchase quotas for major agricultural and sideline products, they have the power to work out their own production plans and sell their products according to the market needs and their own economic interests. They have the power to decide how to distribute their income and to oppose any unpaid transfer of their resources and arbitrary orders from above. Various economic sectors should be developed; the co-operative economy and the individual economy should be permitted to exist in commerce, service trades, small handicrafts, transport and construction industries.

(2) Turn scattered and all-inclusive economic units into economic integrations organized according to the principles of specialization, coordination and economic rationality. All types of economic integrations must be based on voluntary participation and mutual benefit from bottom to top and from top to bottom. Barriers must be removed between localities, between

different economic units, between the military and civilian departments and between different forms of ownership. There can be many kinds of integrations. For instance, some integrations are confined to the production processes; some are limited to the joint use of raw materials, labour force, funds, technology and other production factors. Some integrations practise unified management and accounting; some are loosely organized, with the participants keeping separate business accounting. Some are regional or trans-regional integrations and some are organized on a national basis when necessary. All integrations must respect the decision-making power of the participating enterprises and abstain from monopoly in their economic activities. Several integrations can be formed in one trade to encourage competition. Integrations should also be formed along different lines of business to provide and gradually socialize services catering to the needs of everyday life. It is economically irrational that many enterprises have now become an epitome of society because they have to provide such services for their own people as a society does for its members.

(3) Turn the closed systems of distribution of goods separated from each other by administrative setups into an open commodity market under unified leadership. This is intended to facilitate the flow of goods. The market in China has been disjointed without a unified commodity market. Means of production distributed by the state were generally not allowed to enter the market. The circulation of both producer and consumer goods must become organized under the principle of socialist commodity economy. Except for a few important commodities essential to the national economy and the livelihood of the people and commodities in short supply that are distributed mainly according to plan, all commodities must be purchased and marketed freely. More channels should be found for the circulation of commodities, the procedures in commodity sales should be simplified and administrative and regional barriers removed. Circulation should be organized

on the basis of economic regions to gradually form trade centres of all types. Mutual relations among the centres should then be coordinated in order to bring about a unified national commodity market. To turn the present seller's market into a buyer's market, attention should be paid in planning to the balance between the supply of commodities and the purchasing power of the people with the supply a little bigger than the direct demand. The exclusive control of foreign trade by the foreign trade ministry or by local authorities should be changed to give the power of handling export and import business to the major production enterprises and foreign trade enterprises. Attention should be paid to giving play to the initiative of other enterprises which produce export commodities. Under the guidance of the unified plans and policies of the state, multiple flexible forms of business should be adopted to satisfy the changing demands of the international market.

(4) Economic activities must be organized not by ministries or by local authorities but by economic centres. In the past, there were natural goods collecting and distributing centres such as Shanghai, Tianjin, Wuhan, Guangzhou, Chongqing and Shenyang which organized economic activities mainly through the circulation of goods. The traditional economic connections were severed later when economic activities were organized according to ministries and local authorities. Under the principle of economic rationality, a number of national economic networks should be established with the advanced industrial and commercial cities as their centres. Each of these economic networks should be surrounded by a number of medium-sized and small economic networks backed by key cities and linked with smaller towns and rural areas. Left unrestricted by the administrative barriers, economic activities in each network should be organized on the basis of natural economic connections. The activities of all economic networks can be interwoven to form a well-developed organic whole.

(5) Turn the system of mandatory planning in which superior departments draw up plans binding on the depart-

ments under them into a system of instructive planning in which plans are drafted first at lower levels and then decided together by higher and lower departments. State plans are made for the macroeconomy. This means that the development of the national economy is guided mainly by long- and medium-term plans which cover the direction for the development, main percentages, the scale of capital construction, methods of investments, major construction items and increases in people's income. Annual plans should centre on maintaining a balance between state revenues and expenditures, between credit receipts and credit payments, between supply and demand in distribution of material resources and between foreign exchange earnings and outlays. Mandatory planned quotas can be set for a few major enterprises essential to the national economy and the livelihood of the people, for the production and marketing of commodities in short supply and for major construction projects. As a principle, however, the system of mandatory planning should be replaced by a system of instructive planning. The state and the relevant economic departments should issue forecasts on national economic trends and publish releases on the production capacity, output, demand, stocks and prices of products and on fund raising and interest rates. The enterprises should work out their own plans under state requirements and market demand, and the plans should be balanced level by level from bottom to top. The state, mainly by economy means, gears the enterprises' economic activities to the state plans and social needs. When necessary, the government can resort to administrative means to interfere with their activities according to law.

(6) Change over from the management of economy mainly by administrative means to the regulation of economy mainly by economic means. The government strengthens regulation through the market by making use of pricing, taxation and credit as economic levers. The prices of the industrial products should be set on the basis of the average cost of production and average rate of profit on investment and be readjusted in good

time to keep up with the changes in the production cost and in the relation between supply and demand. The prices of the agricultural products should be set and readjusted in such a way as to reduce gradually the price difference between industrial and agricultural products. The control of prices must be flexible. A multi-form pricing system should replace the single-form state pricing system. Unified prices should be fixed by the state for the major farm and sideline products, raw and other materials, fuels and major consumer goods; Prices fluctuations within a certain prescribed limit should be allowed for part of the farm and sideline products and raw materials, and most of the manufactured goods and consumer goods; and free prices for all other products. The state-owned enterprises should pay taxes instead of delivering their profit to the state. Different types of taxes and tax rates should be fixed to readjust the amount of profit of the enterprises and divide the sources of revenues for the central and local governments. The system of supplying funds without compensation should be gradually replaced by a system of paying compensation for using funds and full play should be given to the role of the bank in regulating and controlling the funds. The People's Bank of China should become the central national bank to control and coordinate the activities of the specialized banks and other banking institutions.

(7) Change over from giving little attention to rule by law to strictly enforcing laws and discipline and strengthening economic legislation, administration of justice and supervision. In the past, everything depended solely on rule by man whether it was in the political or economic fields. That all was decided by a few leaders or by the number one leader gave rise to many defects. It is essential to strengthen rule by law. The state should enact civil law, financial law, banking law, planning law, statistical law, accounting law, contract law, patent law, metrological law, corporation law, factory law, shop law, mining law, labour law, land law, grassland law, aquatic resources law, capital construction law, tax law, pricing law and other

economic laws and regulations so that all economic activities will be governed by laws. Economic courts should be established to try economic cases. An economic supervision system should be set up from the seat of the central government to the seats of local governments and full play given to the supervisory role of statistics, finance, taxation, banking, pricing and industrial and commercial administrations.

(8) Change over from the overconcentration of power of economic management in the hands of the central authorities to expansion of the local authorities' power under the unified leadership of the central authorities. With such a vast territory, China needs to define correctly the limits of power in economic management between the central and local authorities. It seems appropriate to define the limits in the following way: The central authorities will be responsible for formulating economic and technical policies, economic laws and regulations and national economic development programmes; preparing the state budgets; deciding the distribution of economic regions and major construction projects; building the national defence and aiding economic developments in backward areas. The local authorities will be responsible for enacting local economic laws and regulations, drawing up local economic development plans and preparing local budgets and taking charge of urban construction, service trades and local projects in the infrastructure, as well as of farming, afforestation, water conservancy, culture, education and health work in the localities. Under the guidance of the unified policies formulated by the central authorities and within the limits of the laws and regulations, the local authorities have the right to decide local revenues and expenditures, collect local taxes and fix tax rates, decide price fluctuations for some commodities, and handle the import and export business within given limits.

(9) Change over from the system under which the factory director assumes full responsibility under the leadership of the Party committee to the system of congresses of workers and staff and of factory director's responsibility. All enterprises

should practise democratic management. The congress of workers and staff (or the conference of workers and staff) is the agency of power in an enterprise which in accordance with relevant state stipulations decides the principles guiding the enterprise's production and operation, its plans for production, securing material supplies and marketing products and other important matters such as business accounting, labour use, wage and benefits. The congress has the power to dismiss workers and staff members, to elect or recall the factory director and submit the decision to the higher authorities for the record or for approval. When the congress is not in session, a standing committee of the congress exercises its functions, and sees to it that adopted resolutions are carried out. As the administrative leader of the enterprise, the factory director nominates the deputy factory directors, chief engineer and chief accountant who are appointed by the congress or its standing committee. The enterprise Party committee, the core of the ideological and political leadership, ensures the implementation of the Party's line, principles and policies in the enterprise. The members of the joint committees or the boards of directors of the economic integrations are representatives of all enterprises which join the integrations. The principles guiding operation of the integrations, their production and marketing plans, distribution of their profits and the appointment and dismissal of their managers are decided by the joint committees or the boards of directors under the agreements of the integrations or by canvassing those concerned.

(10) Change over from the management of the economy directly by Party and administrative organizations to the management of the economy mainly by economic agencies. The Party committees at all levels should withdraw from their handling of routine matters of economic management but give better guidance to the orientation behind economic construction, lines and policies. The governments at all levels should guide and manage the economy mainly through the policies, laws, regulations and plans and through the economic levers.

They should not interfere with the internal affairs of the economic units. Appropriate commissions for managing the economy will be set up by the central and local governments, all unnecessary ministries or departments and bureaus discontinued. The functions of the commissions are: (a) to check and supervise the implementation of state principles, policies and laws and regulations, (b) to formulate programmes for economic development and make economic and technical policies, (c) to guide, coordinate or approve the plans of the enterprises, (d) to organize major capital construction, technical revamping and scientific research projects, (e) to supply domestic and foreign economic information, (f) to organize technical exchange, (g) to train specialized personnel and (h) to give work guidance.

If put into effect, the general approach and main ideas proposed by Chinese economic circles and economists for restructuring the economy clearly will bring about a fundamental change in the relations between centralization and decentralization in China's system of economic management, between planning and the market, and between administrative means and economic means. This will eliminate all defects in the structure of economic management with highly centralized power, which neglects market mechanism and depends mainly on administrative means. In particular, it will put an end to the over-extended and rigid control of the economy and the problem of "sharing food from the same big pot." The new system will help encourage the initiative of the enterprises, the economic organizations and the working people so that the economic organizations at all levels and the individuals will assume their economic responsibilities. It will promote the social division of labour, advance technological progress, fill the gap between production and demand and raise economic efficiency. It will also help trim bureaucracy and simplify the administrative structure so that the Party and government leadership and the central policy-making agencies can be free from trivial routine matters to concentrate energy on guiding

the work of formulating economic policies, principles and plans which will help raise the level of economic management.

Therefore, the structure of economic management established on the basis of these ideas will be a new model for China, a model that has its root in China's socialist reality and meets the requirement of China's modernization in the best possible way.

Of course, these ideas for the restructural reform are only tentative, far from being perfect. Neither is it a fact that there is unanimity of opinion over every aspect of the matter. Different views still exist on the questions of how to change over from the system of mandatory planning to a system of instructive planning, of how to understand relationship between guidance by planning and market mechanism in the new system of regulation, and of how to handle the relations among the Party committee, the congress of workers and staff and the factory director in the new system of leadership in an enterprise. These questions need further discussion among economists and economic workers. Moreover, to bring about the structural reform, mere ideas are not enough. There must be an overall plan and concrete steps. Whether these ideas, the plan and steps conform to the objective reality has to be tested in the course of reform. Further theoretical study is also necessary to perfect the system.

The Chinese economic circles and economists are now studying how to blueprint the new economic structure and what steps to take to effect the reform. In studying the possible steps to be taken, particular attention has been paid to the following questions:

First, the relationship between economic readjustment and restructuring. The policy of readjustment, restructuring, consolidation and improvement was adopted at the Third Plenary Session of the 11th Central Committee of the Communist Party of China to overcome the serious difficulties caused by internal disorder during the ten years of the "cultural revolution" and to correct the errors arising from the failure to understand

fully in the first two years after the downfall of the "gang of four" the serious imbalance in the national economy. The immediate task of readjustment is to bring into balance the relations among the different branches of the national economy and make the structure of the national economy rational. The many problems existing in the economic structure and the relations of proportions are closely related to the irrational economic system. For instance, the overconcentration of economic power and the problem of "sharing food from the same big pot" have petrified the economy and stripped economic growth of vigour and elasticity. If these defects are not overcome, it is very difficult to balance relationships within the national economy and build a rational economic structure. Therefore, economic readjustment cannot go well without a corresponding restructuring of the economy. Neither can an overall restructuring of the economy start without economic readjustment. When the serious imbalances in the national economy cause commodity shortages, price fluctuations, financial deficit, tight credits and scarcity of material resources, the state cannot finance the price readjustment, reform in the taxation system and other measures for restructuring the economy. When the abnormal supplies of materials and energy and the unfavourable conditions for the production and operation of enterprises make it difficult to coordinate production, supply and marketing, it is often beyond the power of the enterprises to ensure that they will achieve good results in production and make profits. Under these circumstances, even if an enterprise is given the decision-making power in management, the enterprise will have difficulty using it with success. In other words, an overall restructuring of the economy is difficult if it is not readjusted well. When priority is given to the economic readjustment, restructuring must serve and benefit the readjustment which represents the interests of the whole. Of course, if the economy is properly readjusted, economic conditions will become ripe for further efforts to restructure the economy in an overall way.

Secondly, the relationship between political reform and economic reform. The economic system and the political system are interrelated. The defects in the economic system — overconcentration of decision-making power, neglect of regulation through the market, management mainly by “a superior’s order” and administrative means and the over-extended and rigid control of the economy — are closely related to the overcentralization of power, lack of democracy and absence of rule by law in the political system. To restructure the economy in favour of a multi-level decision-making system, to combine regulation through planning with regulation through the market and to replace administrative means and superiors’ orders with economic means and economic laws and regulations — all this means decentralization, democratization and systematization of the economic life. These reforms will meet with resistance of all sorts from the vested interests and conservatives at all levels. Obviously, to liberate the bound productive forces requires more than restructuring the economy. If a corresponding reform is not carried out in the political system, it will certainly hinder a normal restructuring of the economy and harm the new structure of economic management because the bureaucracy, deciding everything by one man’s say, the patriarchal behaviour and other defects arising from the overcentralization of power will remain unchanged. The reform of the system of economic management must be coupled with a simultaneous reform in the political system. It is necessary to put an end to the overcentralization of power, develop socialist democracy, better the socialist legal system, improve the leadership of the governments at all levels and of the enterprises, and separate the functions of the Party from those of the government and the functions of the government from those of the enterprise. In this way, favourable political conditions and an appropriate environment will be created for a smooth restructuring of the economy.

Thirdly, the relationships between minor reforms and major reforms and between partial reform and overall reform.

A prevailing view among Chinese and foreign economists has been that the economy ought to be restructured in a package deal. That is, once work is started, it has to be done in a comprehensive way all at once with different parts of the new structure coordinated with each other. It would be a mistake, the economists thought, to do it step by step, bit by bit. But many economists and economic workers now take a different view. They concede that a general programme is needed because it certainly would cause losses along a roundabout course if rash action is started with no general idea of the orientation of the restructuring or of the relationships among the different parts of the new system. But it won't do to wait till all details are worked out for the programme and conditions are perfect before an overall restructuring of the economy is started all of a sudden. That would be unrealistic. In the first place, the circumstances are such that there can be no time to wait in that way. Moreover, in a large country with a territory of 9.6 million square kilometres and a population of one billion, including 800 million peasants, local conditions vary so much that the situation is extremely complicated. A package deal started all at once without prior experimentation would cause even greater losses if something goes wrong. Therefore, the reform must start with experimentation — from minor reform to moderate reform, and from moderate reform to major reform. New conditions and new problems must be constantly studied and experience summed up. The work must be guided in the light of the circumstances. In this way, the whole process of reform can have a healthy development through gradual transitions which take care of the interests of all sides. As to the steps to be taken, first of all, the general programme and specific plans must be properly prepared. Some economic units must be chosen for experimentation so that the really effective plans can be popularized on the basis of the experience gained. Secondly, some time must be set aside for completing the reforms in the systems of taxation, price, banking, planning, commerce, foreign trade and labour to lay a

good foundation for a overall restructuring of the economy. Finally, when all conditions are ripe and experience is gained, all reforms will be put in gear and made more suitable. The division of these steps is intended to bring about the complicated reform in an orderly way without committing too many errors, or doing the damage that can be caused to the economy by a sudden and impractical reform. This way of restructuring the economy conforms with the objective law of development of things and ensures a smooth transition from the old to the new system of economic management.

IV. EXPERIMENTS IN RESTRUCTURING THE ECONOMY AND THEIR RESULTS IN TWO YEARS

For two years or more, local authorities and departments have undertaken experiments — starting with the extension of decision-making power to some enterprises — and have already accomplished much in restructuring the economy.

Six enterprises in Sichuan Province were chosen for the first experiment in October 1978. Beginning in 1979, with the number increased to 100 enterprises, noticeable economic returns were reported. In July 1979, the State Council published a document on the change in the system of management in the state-owned industrial enterprises. This was followed by experiments in expanding enterprises' decision-making power in management in other parts of the country so that by the end of 1979 more than 4,000 enterprises had started the work. The number was further increased to 6,600 in 1980. Of these, 191 enterprises also started the experiment of paying taxes instead of delivering profits, keeping independent business accounting and assuming sole responsibility for their own profits and losses. The enterprises starting the experiment by the end of 1979 produced about 60 per cent of the total industrial output value and delivered about 70 per cent of the total profits though they accounted for 16 per cent of the 42,000 industrial

enterprises in the state budget (from "People's Daily", page 1, January 2, 1981). In the countryside, production teams under the people's communes have also acquired some decision-making power. They have introduced various forms of the system of responsibility for production and implemented a number of policies that conform with the present level of development of the productive forces.

Alongside the experiment of extending decision-making power to the enterprises, many departments and localities have started industrial reorganization. A number of provinces, municipalities and autonomous regions have in the course of economic readjustment formed specialized corporations and general works under the principle of specialization, coordination and economic rationality. According to incomplete figures, more than 1,200 specialized corporations and general works have been set up in Beijing, Shanghai, Tianjin, Liaoning, Hubei, Jiangsu, Sichuan and 14 other provinces and municipalities. About 31 per cent of the industrial enterprises in Beijing, Shanghai and Tianjin have been put under the specialized corporations and general works in these cities and around 8.2 per cent in Liaoning, Heilongjiang, Qinghai, Inner Mongolia and Ningxia. Economic integration has also been introduced in some parts of the country in the forms of joint operation, co-operative operation, and compensation trade between different localities, between state-owned enterprises and collective enterprises or between urban enterprises and rural enterprises run by people's communes or their subdivisions. Agricultural-industrial-commercial associations have also been started in the rural areas on a trial basis. A number of collectively owned industrial, transport, building, retail sale, catering, service and repairing enterprises have been established in the urban areas and so have individually owned handicraft and retail sale enterprises.

These experiments have so affected various aspects of the system of economic management that some changes have taken place.

In the planning system, enterprises are now granted some power in planning as an important part of the extension of decision-making power. They can readjust the variety and specifications of their products in fulfilling the assignments given by the state and can make supplementary plans of their own; in doing both, they can respond to the market demand. The production and marketing contracts concluded between enterprises for extra production above the state quotas can also be included in the state plan. According to statistics from enterprises under the First Ministry of Machine-Building Industry, the assignments the enterprises arranged by themselves in response to the market demand made up 47 per cent of their total output value in 1980. The extension of some power in planning to enterprises is a big improvement. Previously, enterprises had no right to make any change in mandatory state plans. In contrast, they are now allowed to make certain readjustments based on their actual conditions. Therefore, the plans are somewhat adaptable and flexible.

There are also important changes in the system of distribution of material supplies. Part of the means of production are allowed to enter the market, many materials previously distributed according to state plans are now supplied without any restrictions and various sales exhibitions and fairs have been held for means of production in many parts of the country. More than 60 means of production markets were opened in Shanghai, Beijing, Tianjin, Chengdu, Xi'an and other cities by the end of June 1980. These changes have to a certain degree broken the exclusive control of the distribution of materials by the departments of supplies. They have played a positive role in promoting the flow of materials and ensuring production according to demand.

A change has begun in the purchasing and marketing of all goods by the state commercial agencies, and many new forms of purchasing and marketing have appeared. Major commodities that bear on the national economy and the people's livelihood or are in short supply are still purchased from

producers and sold to consumers by the state agencies. But other products are produced and marketed under contracts signed between factories and commercial agencies. As to the products which the state agencies do not purchase and market, the surplus products after the producers has fulfilled the contracts, and the newly-developed products, the enterprises are allowed to sell them on their own or on commission. First steps have been taken to remove the barriers between administrative regions and the bondage by the wholesale system in the flow of commodities, to extend the decision-making power to grass-roots commercial agencies and establish direct links between basic-level industrial and commercial enterprises.

In the financial system, the state-owned enterprises started to introduce systems of business funds and workers' bonuses in the second half of 1978 when some decision-making power in management was extended to them. In 1979, a profit retention system was introduced in some of the state-owned enterprises. In the same year, a system of fixed outlays was introduced in part of the government and public institutions and so was a system of fixed quotas for revenues and expenditures in the state-owned land-reclamation enterprises. And readjustments and improvements were made in agricultural, industrial and commercial taxes. In 1980, Guangdong and Fujian provinces adopted special systems of fixed quotas for their revenues and expenditures, and all other provinces, municipalities and autonomous regions introduced the system of dividing the different kinds of revenues and expenditures amongst the authorities at different levels. Local authorities may spend more when collecting more revenues or spend less when collecting less revenues; they are required to balance their own budgets.

In the system of management in capital construction, financial allocations are replaced by bank loans on a trial basis for investments in capital construction projects and in tapping potentialities, updating equipment and introducing technical

transformations. The experiment was started in a limited number of projects in Shanghai and the provinces of Jilin and Henan in 1979. In 1980 the work was expanded to involve more than 20 industries covering textile and other light industrial products, coal, power, petroleum, communications, building materials, commerce and tourism. The total sum of loans increased from 70 million to 3.6 billion yuan. In Shanghai, and the provinces of Hubei, Fujian and Yunnan, one-third of the investments in the state budget came from bank loans.

These preliminary changes, limited in scope, have been in effect for only a short time and the experimentation is only the beginning of loosening what some people have referred to metaphorically as "the tightened rope". Even so, the changes have begun to provide more room for the liberated productive forces and to open new opportunities for the talent of the people who devote themselves to socialist construction. The experimentation has produced gratifying results in many fields.

(1) With the extended decision-making power enterprises have turned from units merely producing according to the state plan to economic entities with inherent force and unprecedented vigour.

At the Sichuan No. 1 Cotton Printing and Dyeing Mill, for example, under the old system of management, what and how much to produce and how to arrange production were all detailed in state plan. The mill didn't know or didn't have to know the market demand. By the end of 1978, the mill had produced only a limited number of patterns, flower patterns, chemical fibre fabrics and high-quality fabrics and a large quantity — two-thirds of the mill's annual output — of 21 × 21 plain cloth was overstocked. As what was produced under the plan was not in demand, the mill was in danger of losing its market. After the mill was chosen in 1979 as a unit for the experiment in the extension of decision-making power, the authorities decided only quotas for total output, quality and variety. The mill was left to decide what it would produce and how much of each product it would turn out. The director

and deputy directors of the mill personally consulted with commercial departments and sought consumer comments. An extensive survey of the market demand was made by holding sales exhibitions and calling on customers. The mill then tried every way to respond to the market demand by developing new patterns and products. Within only six months, the mill turned itself around to manufacture two greys, seven prints and six coloured fabrics which were chosen as Sichuan Province quality products. A flowery serge was chosen as a national quality product.

The Chongqing Iron and Steel Company in Sichuan Province is another example. In 1979, the company received no orders for the some 30,000 tons of medium plates, 20,000 tons of bearing plates and 50,000 tons of other steel products required by the annual plan. After the company was given the power to sell steel beyond state distribution quotas, it on its own sold nearly 130,000 tons of rolled steel, about 19 per cent of its total sales for the whole year, or 26 per cent of the sales during the second half of the year. As a result, the company recovered from its passive state and boosted production in the latter half of the year. Not only did the company overfulfil all its annual economic quotas, but the state, the enterprise and individual workers also obtained their respective economic benefits.

A third example is provided by the Capital Iron and Steel Company in Beijing, one of eight enterprises chosen by the State Economic Commission for experiments in improved methods of industrial management. After the profit retention system was introduced, the workers and staff of the company tried by all means to improve the quality of products, reduce energy consumption, make multi-purpose use of raw materials and fuels, reduce working funds, raise labour productivity and increase the rate of profit. As a result, the company delivered a profit of 213 million yuan to the state in 1979, the first year the profit retention system was introduced. This was 32.47 million yuan more than in 1978. The company re-

tained 19.04 million yuan, 3.32 million yuan more than the business funds, welfare funds and bonuses it had withdrawn in 1978. The state, the enterprise and the workers and staff all got more than in the previous year. Not only did the production grow, but the collective welfare of the workers and staff, including housing, was improved.

These three examples show that the enterprises which have undertaken experimentation always have to make every effort to ensure the best possible use of their potentialities in keeping with the changing demand, because they have definite powers and responsibilities and relatively independent economic interests. Their leaders, managerial personnel, engineering staff and workers need to be inventive in finding ways to improve the management and push production. Preliminary figures from 5,422 such enterprises indicate that their combined industrial output value in the first nine months of 1980 was 12 per cent greater than in the same period of 1979. Their total profit increased by 17 per cent, and the profit they delivered to the state rose by 13 per cent. Enterprises that had started experimentation all showed greater increases in output value and profit than those which had not. Beijing's Municipal Economic Commission and Financial and Taxation Bureau estimated that the city's industrial and transport enterprises would increase their profits by nearly 5 per cent and their profit delivered to the state by nearly 2 per cent in 1980 as compared with 1979. Of these enterprises, the 342 enterprises which had started experimentation were expected to overfulfil the 1980 plan, increasing their profits by 9 per cent and their profits delivered to the state by 4 per cent.

It is worth noting that those enterprises which have started the experiment of substituting taxes for profits delivery, keeping independent business accounting and assuming sole responsibility for their profits and losses have achieved even more remarkable economic results. The five enterprises in Sichuan Province which introduced the experiment, increased their output value by 45 per cent, profit by 80 per cent and

profits delivered to the state by 46 per cent in the first nine months of 1980 as compared with the same period of 1979 before the experimentation. The five enterprises no longer deliver their profits to the state, but pay fixed assets tax, industrial and commercial taxes and income tax. After the taxes, they use their retained income mainly for expanded production, improved collective welfare and increased personal income of the workers and staff. They also have had their power extended in other aspects and assume the responsibility for the losses, if any, they incur. As these enterprises have taken on more power, responsibility and interests than the enterprises which had started the experiment earlier, they have acquired greater motive and hence greater economic results.

Outstanding results also have been achieved in the extension of the decision-making power of the people's communes in managing the collective economy. Since 1979, various forms of the system of responsibility for production have been introduced in different parts of the countryside in conformity with local conditions. They are basically classified into two categories. The first category does not link farm output with work and the peasants are paid according to the work they contract to complete. The second category links farm output with work and each peasant contracts to complete a fixed assignment for work and farm output or simply for output. Both categories have encouraged farm production to different degrees, but the second category has shown greater increase in farm production as it more closely links the fruits of collective production with the material interests of the individuals so that the principle of more pay for more work can be applied more effectively in the distribution of income. For example, Fengyang County in Anhui Province has been known historically in China for its frequent famines. In 1979, after 70 per cent of production teams in the county introduced the production responsibility system which linked work with farm output, the total farm output that year beat the previous record by 19.9 per cent. The quantity of grains the county supplied

other parts of the country exceeded the total amount in the previous 26 years.

(2) The regulation of economic activities through the market under the guidance of state plans has forged close links between production and demand, reduced the levels of management, speeded up capital turnover and given rise to competition, thus boosting the development of production.

In the first place, regulation through the market has put an end to the conventional practice of separating production from demand. Through many channels, it has contributed to establishing direct links between producers and traders, reducing overstock, guiding production and, to a certain degree, solving the problem of contradiction between producers and traders that had existed for many years. Statistics showed that in 1979, means of production fairs in China handled overstocked goods worth more than 500 million yuan. As these fairs handle a great variety of goods and receive many customers, they provide a clear idea of supply and demand in the market and can give prompt guidance on what the enterprises should produce. For example, based on information supplied by the municipal means of production corporation, the bicycle tyre plant in Kunming trial-produced a kind of bicycle tyre which was in short supply in Guangdong Province. When the 60,000 tyres were brought to a fair in Guangzhou, they were sold out in one day, with more orders received. The 6,000 sleeveless fur garments made in Wuxian County, Jiangsu Province, which had been stocked in a warehouse for three or four years under the system of unified purchase and sale by the state, were bought by a customer from northeastern China at a sales exhibition last year. The county received more mail orders for the future. Suzhou Prefecture in Jiangsu Province held more than 30 sales exhibitions last year, reducing the proportion of overstocking to the total output value there from 5 to 1 per cent.

In the second place, regulation through the market has reduced the levels of management, speeded up circulation of

commodities and accelerated capital turnover. In the past, some small commodities, pastry and confections in Bengbu, Anhui Province, were purchased and distributed to the shops by the second-level wholesale station. Beginning in the second half of 1979, direct links were established between the shops and the factories. Goods were chosen and delivered and the invoices made out right at the factories. This change produced immediate good economic results. It used to take a week to a month for the pastry to go from manufacturers to retail shops. Now, the pastry is sold to consumers the same day or the day after it is produced. Ensuring the freshness, colour, flavour and taste of the pastry, the new system also helps to reduce the stock. In the past, the factories which had their accounts settled with the second-level wholesale stations once two weeks or one month were often short of working funds. Now the problem has been solved because they receive the payment soon after the goods are delivered.

In the third place, the competition stemming from regulation through the market has forced the enterprises to improve the quality of their products, develop new products, reduce the cost of production and improve services. In short, it has given an impetus to improving the operation and management of the enterprises. The bureaucratic complacency of industrial and commercial enterprises has been shaken, and the idea that everything should be done for their customers has begun to reassert itself. There are many examples to cite on this point.

(3) Industrial reorganization and the establishment of various forms of economic integrations have begun to play an important role in making full use of favourable factors and improving economic performances.

Economic integration taking shape in various trades and enterprises constitutes a new form of economic organization that conforms with the present level of development of the productive forces in China. There are seven main types of economic integrations in the industries: (a) general works of specialized corporations — works comprising factories produc-

ing the same products or employing similar processes; (b) specialized plants and technical co-operation centres for heat treatment, electroplating, casting and forging in industrial cities; (c) co-operative operation or joint operation on the basis of pooling funds, labour force and equipment. This can be done between urban factories and rural farms, between state-owned factories, and between state-owned factories and collectively owned factories; (d) integrations organized by processing enterprises in industrial cities and producers of raw materials; (e) joint operation or coordination between producing enterprises on the one hand and research units and schools on the other with technical co-operation as the focus of work; (f) integrations based mainly on operation and circulation and (g) specialized integrated corporations set up by enterprises to deal with transport, repair, design, foreign trade and supply of complete sets of equipment. Experience has shown that the organization of economic integration in various forms not only enables economic units to make use of the favourable factors and avoid doing what they cannot do to the best advantage, but helps to strengthen planning for economic development and reduce or avoid redundant production and construction. For example, the Shenyang No. 1 Tools Plant employs nearly 300 workers and staff members and produces conical-handle drill bits, an indispensable metal-cutting tool in industry that has been in heavy demand. But the plant, though well equipped, could not increase production to meet the demand because it had a shortage of labour power. On the other hand, the Shenyang Shengli Accessory Plant had difficulty in paying the wages of its 170 workers and staff members because it hadn't received enough work assignments for a long time. In October 1979, with the aid of the Shenyang Municipal Tools Industrial Corporation the two plants pooled their resources for the production of drill bits. Without adding investment, equipment, building space or labour force, the joint enterprise produced 350,000 drill bits in 1979, compared with 140,000 in 1978. The profit quota for 1979 was 260,000 yuan, but the actual profit

was 297,000 yuan. There was once a high overstock of ribbon in Shanghai which the commercial departments refused to purchase. In 1979, a ribbon corporation was set up under which 42 small factories were reorganized into 24 new factories. The old buildings were pulled down for reconstruction. New products were developed. As the factories coordinated production with marketing and began to sell their products on their own, ribbons became good sellers under expanded production. In the first half of 1980, Shanghai also organized enterprises with the provinces of Zhejiang, Jiangxi and Hunan and the Guangxi Zhuang Autonomous Region. Shanghai contributed equipment and funds while the provinces and the region supplied raw materials and labour force. Plants or trans-provincial corporations were jointly established to engage in compensation trade, joint venture and processing materials and other lines of production. Without much investment, these joint enterprises have helped a lot by allowing the different localities expression of their advantages. The establishment of economic integration between big cities on the one hand and medium-sized and small cities, or even enterprises run by counties and communes on the other helps to solve the problem of supplying raw materials for the development of light industry. It also serves to avoid building redundant factories and wasting raw materials in these localities.

Achievements have also been made in setting up agricultural-industrial-commercial associations in rural areas. More than 30 counties, municipalities and districts in Sichuan Province — with more than 4,000 production teams and nearly 100 farms — were setting up or preparing to set up such enterprises in the second half of 1980. These enterprises, instead of merely engaging in agricultural production, have taken up the producing, processing and marketing of goods to reduce consumption of manpower, financial and material resources and lower the cost of production. As statistics show, the 26 state farms on the outskirts of Chongqing suffered so much loss for consecutive years ending in 1978 that they would have

gone bankrupt but for government subsidies. In 1979, the farms were integrated with 50 neighbouring production teams into the Changjiang Agricultural-Industrial-Commercial Joint Company. That year, the 50 teams increased their income by 45,000 yuan, the workers and staff on the farms received additional bonus of 74 yuan each and the state received a revenue of more than two million yuan.

(4) The establishment of collective enterprises and the growth of the individual economy in the urban areas have created many jobs, invigorated the market and made things more convenient for the people.

In the past, under the influence of the attempt to make transition when conditions were not ripe, the collective economy in many parts of the country was infringed upon at will and restricted in many ways while the individual economy was on the verge of extinction. The social-economic structure in the cities was so irrational that while large numbers of people had no jobs there were a lot of jobs waiting to be done. Since 1979, great efforts have been made to expand the collective economy and support the individual economy. This concerns mainly production of small commodities, retail trade, services and repairs, construction and reconstruction, transportation and catering trade. Some of the business operations look trivial but they make up for deficiencies in that they provide things which are badly needed by the people but difficult for state-owned enterprises to produce. According to a survey from Beijing, neighbourhood-run collective enterprises developed more than 100 new products in 1979 and in the first half of 1980, 40 of them being art handicrafts for export and tourists. The enterprises have restored the production of clay figurines, dough figurines, glass grapes and other folk art work which had been suspended for many years. Furniture made by co-operatives has somewhat eased the shortage of wooden furniture in the market. Development of the collective and individual economy has created many jobs. In the second half of 1978, there were still more than 50,000 people seeking jobs

in Changzhou, Jiangsu Province, a serious problem in a city with a population of 310,000. But as the newly established collective enterprises provided large numbers of jobs, the city's employment problem was satisfactorily solved. Some 51,600 people found jobs in 1978 and 1979, with 42,200 of them working in the collective enterprises.

(5) The change on a trial basis from government appropriations to bank loans for investments in capital construction and in tapping the potentials of existing enterprises, updating their equipment and introducing their technical transformation and from the use of funds without compensation to the use of funds with compensation has initially altered the indifferent attitude of enterprises toward business accounting, strengthened their sense of economic responsibility, given play to the functions of the banks and increased returns from investments.

Shanghai chose six projects for the experiment in 1979. As the units obtaining bank loans had to pay both the principal and interest, they made the construction of the projects more economical and rational. They took the initiative to review their construction programmes and solve the problems they found. Practising strict business accounting, they succeeded in cutting down the investments. For example, the Shanghai Non-Ferrous Metal Rolling Plant had planned to build a new copper plate shop with an annual capacity of 10,000 tons. An approved investment for the project was 6.85 million yuan and the ordered rolling mill had a capacity of 40,000 tons a year, four times as much as needed. When the appropriation was later changed to a bank loan, the plant's leadership feared that they might be unable to pay back with interest. So they cancelled the original plan and adopted other measures instead. By revamping the old equipment, the plant borrowed only two million yuan to achieve the same goal. The Qinghe Chemical Plant in Shandong Province had asked for a government appropriation of 4 million yuan for the construction of a workshop producing six million tape cassettes a year. However, it was not sure what quality cassettes it could produce. After

the appropriation was changed to a loan, the plant reconsidered the question and decided to aim at an annual production of 1.5 million cassettes by making use of the existing conditions and to increase the capacity later if the cassettes proved to be a good seller. As a result, the loan was cut down to 2.7 million yuan. The bank also strengthens its supervision over the loans as it assumes the responsibility of ensuring that the loans will be recalled. In uncovering many problems while reviewing requests and applications for loans, the bank has avoided losses. Moreover, as the fulfilment of quotas in capital construction has a direct bearing on the economic interests of the workers and staff, everyone pays conscious attention to the returns from the investments and to work progress.

(6) The division of revenues and expenditures between the central and local governments has encouraged local authorities to increase their revenues, reduce expenditures and expand production. In the past, local revenues and expenditures were controlled mainly by the Central Government without leaving the local authorities much room for independent action. The purpose of the new practice is to correct the economic relations between the Central Government and the governments of the provinces, municipalities and autonomous regions. As it is, the local governments have been motivated to increase revenues and reduce expenditures. The financial resources thus accumulated have helped promote the rapid development of the local economy.

As a whole the orientation for the reform in the two years has been correct, measures reliable and achievements satisfactory. The reforms have broken away from some of the conventional practices in the system of economic management regarding production, circulation, distribution and ownership. Valuable experiments have been made in combining regulation through planning with regulation through the market, in organizing economy on the basis of the rational economic connections and in managing the economy by economic means. The economic interests of the state, the collectives and the in-

dividuals and those of the central and local governments have been better combined. The whole economy has become brisk. All these have helped people further emancipate their minds, strengthen their confidence and continue the reform with even bolder steps.

V. PENDING PROBLEMS AND PRESENT TRENDS

No change in history has been plain sailing. Although achievements have been made in restructuring the economy in the two years, there are still many problems. The present reforms are carried out in the course of the economic readjustment, and some of them are partial and experimental. No fundamental change has been made in the old system. The various changes that have taken place are not yet coordinated. There is no unified plan. Ideological and organizational work is lagging behind. "Left" ideology and old forces of habit are still making their influences felt. People in some localities and departments are used to old conventions. All these hinder smooth progress in restructuring the economy and some unavoidable problems arise.

First of all, the reform in the economic structure has invigorated the economy, but there are some ill-considered actions in certain aspect of the work. Repetitive construction and production has occurred in many places. Now that local authorities and enterprises have got more money since their decision-making power was extended, the question is how to spend it. Because the local authorities and enterprises do not know the national market situation and have no idea of what to develop and what not to develop and the higher authorities do not have a unified plan or give necessary guidance, some of the industries and enterprises that should be cut down or suspended are still being built or expanded. Meanwhile, lack of a unified plan has led to a general rush into action in the construction and expansion of those that should be built or

expanded. Some local authorities have misunderstood the principle that economic development should centre on what is most profitable in each locality. Accordingly, they set up their own small factories employing backward processes or equipment to produce inferior quality goods by cutting or suspending the supply of raw materials produced in their localities and traditionally supplied to the old industrial centres. The large, old, and technically advanced factories have been compelled to operate under capacity owing to a shortage of raw materials. This has caused a waste of social labour. There were 1,496 distilleries, wineries and breweries run by the governments at and above the county level in 1979, producing among them 3.5 million tons of alcoholic drinks which basically met the market demand. In 1980, more than 12,000 small wineries, distilleries and breweries were set up in 17 provinces and autonomous regions, nine times as many as the year before. Similar things have also happened to knitwear, cotton goods, cigarettes, soap, household appliances, silk fabrics, plastics, leather, furs, canned milk products, printing and other industries. This has aggravated the imbalance of the national economy, reduced the economic returns and the state revenues, and is therefore unfavourable to the readjustment of the national economy.

Secondly, since the profit retention system was adopted, there has been a big difference in the retained amounts of profits between industries and between enterprises. There are many objective causes, such as the different levels of prices and tax rates, different technologies and machines, change of variety and the different compositions of products in the internal and external trade. Moreover, the methods of retaining profits in different enterprises are the same. For example, 10 per cent of increases in profits is retained for almost all enterprises. It is unfair if the ensuing big differences in incomes are not readjusted. The present profit retention system has also proved less advantageous to the advanced enterprises. The enterprises which have difficulty in greatly in-

creasing output and profits because of their advanced quotas and high base figures gain less, absolutely or relatively, than those which find it easy to increase output and profits because of their low base figures and their previously low rate of equipment utilization. This would have had nothing to do with interests of the workers and staff in the past when the whole profit of an enterprise was delivered to the state which assumed the sole responsibility for its profits and losses. Today, however, this difference in gains is causing contradiction to develop between different enterprises because the retained amount of profit has a direct bearing on the interests of an enterprise and its workers and staff and their enthusiasm for work.

Thirdly, the new system of dividing revenues and expenditures between the central and local governments has produced some unsatisfactory results. The local governments, encouraged to increase revenues and reduce expenditures and develop production and other undertakings, are prone to take protective measures to impose blockade and restrict competition. To increase revenues, some local governments have forbidden the sales of commodities from other parts of the country or prevented local factories from placing orders outside their own localities. Raw materials produced in some localities have been consumed in local factories instead of being sent to where they are needed under the state plan. Such practices have weakened the cross connection between localities and between enterprises, thus impeding competition and hindering the rapid development of production.

Apart from the problems mentioned above, new contradictions have also taken place between industry and commerce and between agriculture and commerce in the purchase and marketing of goods at negotiated prices, in the variety and quantity of products sold by producers themselves and in the selling prices. Some illegitimate practices have somewhat intensified in the economic life. Because channels for the circulation of commodities are more or less blocked, many commodities are overstocked in one place but are out of supply in

others. As a result, many enterprises have to look for their raw materials or for their own customers. This is particularly true in enterprises run by communes, production brigades and urban communities. This has provided good opportunities for profiteering activities and the birth of black market brokers.

Although these problems have arisen in the course of experimentation, they are secondary after all, compared with the achievements made therein. The defects must not be used as an excuse to negate the reform. Moreover, some of the problems have cropped up precisely because conditions are still unavailable for a complete reform in the economic system at present and because contradictions arise between the reforms on the one hand and the old system of managing the economy mainly by administrative means, especially the irrational system of prices, on the other. It is in the course of progress that these problems have appeared. They can be solved by studying them earnestly, learning from experience and steadfastly pushing the reform forward and strengthening guidance and management.

The question is how to take further steps in restructuring the economy in conformity with the present economic situation? After two years of readjustment and experimentation in the structural reform, the economic situation as a whole is excellent. However, there is a potential danger: the big financial deficits in the two years and the issuance of currency in excess of the market demand which has led to rising prices. Not long ago, the Party Central Committee and the State Council took a full stock of the situation and concluded that if no decisive measures were taken, the people both in the urban and rural areas would be in danger of losing the benefits they had received since the Third Plenary Session of the 11th Central Committee of the Communist Party of China held in December 1978. For this reason, the Party Central Committee and the State Council decided to make a further large and earnest readjustment of the national economy, beginning in 1981, and continue it through the Sixth Five-Year Plan period (1981-

1985). The reform of the economic structure must continue at present, but it must be subservient and beneficial to the economic readjustment.

There is one question: How has this potential danger in the economy appeared? Some comrades say that it has been caused by the reform of the system. They are wrong. The potential danger originated in the low efficiency, the low consumption level and the failure to make timely improvements in the people's living standards — the results of the erroneous "Left" ideology behind the attempts to achieve a big leap forward by setting high production quotas and high rates of accumulation of funds in the economic work. After the Central Committee of the Communist Party of China put forward the policy of readjusting, restructuring, consolidating and improving the national economy, people who still did not free themselves from the bondage of the ideology either failed to carry out the policy effectively or even boycotted it. While raising the level of consumption, they failed to take corresponding steps to reduce the scope of capital construction to a desired level. As a result, the total sum of accumulation and consumption exceeded the total sum of the national income at the disposal of the state, thus aggravating the imbalance of the national economy. This is the main cause of the potential danger at present. Of course, also adding to the economic difficulties have been some improper measures taken in the reform, such as extending the decision-making power to enterprises in great haste, and implementing the principle of economic interests and practising regulation through the market in some fields without at the same time introducing reforms in the state guidance through planning and in economic legislation, pricing and taxation. The principal measure to overcome the economic difficulties and the potential danger to bring about the steady and even development of the national economy is to carry out the policy of further economic readjustment, to take firm steps to reduce the scope of capital construction and curtail the administrative expenses and to make

a truly radical change in the irrational setup of production so that agriculture will rank first in the order of priorities, followed by light industry and heavy industry. While taking vigorous measures to carry out the economic readjustment, it is necessary to continue to make a success of restructuring the economy.

How to make the structural reform more beneficial to the readjustment under the present circumstances? First of all, in taking further steps to restructure the economy, attention must be paid to combining the strengthening of the centralized planned guidance of the state with the further mobilization of enthusiasm and initiative of the enterprises and basic economic units. To make the readjustment successful and overcome the present difficulties, it is necessary to strengthen centralization. The present stress on centralization means to strengthen the guidance of the state through planning and necessary administrative intervention as far as macroeconomy is concerned. For example, funds used for capital construction by all units must be controlled by the State Planning Commission for an overall balance. The financial and taxation system must be unified and so must all major financial measures, the credit control system and the cash control system. Prices also must be strictly controlled. State plans for distribution of the major material supplies must be implemented thoroughly. However, this does not mean a return to the ways of centralizing everything and putting everything under rigid control. Instead, the microeconomy will be invigorated by giving play to the enthusiasm and initiative of the enterprises and other basic units while strengthening the guidance given to the macroeconomy through planning. Otherwise, it will be impossible to end the petrification of the economic structure, the results of overconcentration of economic power and of the "sharing food from the same big pot"; nor will it be easy to fulfill the present task of readjusting the economy. Therefore, it is very important to pay constant attention to combining the realization of the initiative of the basic economic units with the strengthen-

ing of the centralized guidance of the state through planning in the future structural reform so that every step in the change will help the readjustment.

Secondly, the timing of the measures taken or to be taken to restructure the economy should depend on whether they are immediately advantageous to the readjustment or not. It is clear now that some measures are beneficial to the readjustment. For example, the change from government appropriations to bank loans in capital construction investment plays a good role in reducing the scope of capital construction and controlling the capital investment as it helps improve economic performances, save funds and cut back irrational investment. Such advantageous changes should be encouraged. Bold steps should be taken to grant loans for all circulating funds, open more channels for the circulation of commodities and develop the different sectors of economy and different ways of business operations. Some reforms which, though rational and needed from a long-term view, contradict the present readjustment should be postponed for an appropriate period of time. For example, the reform of the whole price system, which is necessary to restructure the economy, should not be effected right now or in the next few years because balance is not maintained between the state revenues and expenditures and between the credit receipts and payments and because the plentiful supply of commodities cannot be guaranteed. Under the present conditions which make it impossible to change the market prices radically, it is necessary to begin with changes and readjustments in the taxation system to help solve many extremely irrational problems. Active preparations should also be made for the overall readjustment of the prices. Some other reforms are both favourable and unfavourable to the readjustment at present. Whether they should be adopted right now or at another time should be decided after the advantages and disadvantages are carefully considered. In short, every reform must be beneficial to the readjustment. To accumulate experience, of course, bold experiments should be

carried out on some reforms that will provide the orientation for restructuring the economy.

Finally, the reform and the readjustment should be coordinated. As the time needed for the readjustment of the economy will be longer than anticipated, the tempo of the whole matter of the structural reform should also be slower than expected for the sake of concentrating on the readjustment. Reforms that will take too much time and energy must be slowed down with firm determination. Stress should be laid on consolidating the enterprises which are now carrying out the experimentation, and on readjusting and reorganizing the enterprises. The principal task for the present is to earnestly review the experience of the two years and analyze and solve the new problems that have cropped up in the course of introducing the reforms. These include the problems of how to solve the contradictions between industry and commerce in expanding the circulation of commodities, how to formulate the policies for determining the extent to which the collective economy and the individual economy can be developed and how to lay down the regulations governing the use of the funds retained by enterprises with their extended decision-making power. Regulations should be worked out to consolidate the fruits of the reform. The whole course of the structural reform should be so slow, steady and well-oriented that it will help the concentration of the leaders' energies on the readjustment and at the same time ensure healthy progress in the reform.

In short, the reforms that have proved effective so far must be continued during the period of the economic readjustment, the fruits of the changes must be consolidated and developed, and a few new reforms must be introduced on an experimental basis step by step under leadership. In accordance with these requirements, the immediate changes should be made in the following aspects:

Different forms of the system of responsibility for management should be introduced for different types of en-

terprises. Continued success should be achieved in the more than 6,000 enterprises which have been experimenting with the extension of decision-making power, and the experience should be analyzed so that all the measures can be more and more improved. The number of enterprises for experimentation should not be increased again for the moment. Where conditions permit, fixed profit quotas or fixed percentages of profit for retention should be gradually introduced for a whole trade or corporation in a city.

Enterprises not chosen for experimentation should continue to adopt the system of business funds or a quota system for their revenues and expenditures. With regard to a number of enterprises, it is necessary to reorganize them, shut them down, suspend their operation, amalgamate them with other enterprises or switch them over to the manufacture of other products, on the merits of each case. Then, the system of responsibility for fixed profits and losses or for profits alone should be introduced for those enterprises which earn small profits or incur losses.

A few enterprises and cities should continue the experiment of "substituting tax payment for profit delivery to the state, keeping independent business accounting and assuming sole responsibility for their profits and losses" and learn from experience, but the number of such units should be limited.

Regulation through the market should be continued with success under the guidance of state plans. Departments in charge should improve market forecasts, strengthen necessary administrative intervention, increase the use of economic levers and avoid doing things blindly.

The reorganization and integration of enterprises should continue to be promoted. At the time of readjustment the industries should be reorganized according to the principle of specialization, coordination and economic rationality in the course of shutting down some enterprises, suspending their operation, merging them with others or switching them over to other lines of production. By removing the barriers be-

tween administrative departments and regions, enterprises should be encouraged to form all types of economic integrations in order to create new productive forces. Integration of enterprises from bottom to top and planning and coordination from top to bottom should be combined.

Reform in the system of leadership in enterprises in accordance with the stipulations of the Central Government should be tried out first in a limited number of units so as to gain experience for gradual popularization. Efforts must be made to ensure the success of democratic management of enterprises. All enterprises should give full scope to the functions of the congresses of workers and staff or their conferences as well as the trade unions.

Provided that the economy of public ownership is predominant, the individual economy should continue to be allowed to grow in urban areas.

If all these changes are done well, they will not hinder but rather will help the development of production and the readjustment. Successful readjustment will be provided conditions for the overall restructuring of the economy.

Restructuring the economy is a large-scale reorganization of management of the national economy, a big readjustment of the economic interests of all sides, and a big event in the economic life of the Chinese people. To do such a complicated and important job well is really not easy. More experience is needed. The experience of other countries must not be transplanted mechanically. While it is true that remarkable results have been achieved in the experimental work, many important questions remain in theory and in practice. To clarify and solve these questions properly, it is necessary to undertake further theoretical studies, decide on the general aim and programme for the reform and work out coordinated, concrete plans. The structural reform must be advanced resolutely by starting with experiments, learning from experience and popularizing the achievements step by step. This is the way to achieve a smooth transition from the old system of

economic management to the new system and get rid of obstacles to modernization in this big country with a territory of 9.6 million square kilometres and a population of nearly one billion.

Chapter III

SETUP OF PRODUCTION

by Sun Shangqing and
Chen Shengchang

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AN important condition behind the healthy growth of the national economy in China was the state of the setup of production which included the relations between means of production and means of subsistence, and among agriculture, light industry, heavy industry, building industry, transport industry, service industry and commerce. Basically, the economic readjustment in China was an attempt to create a rational setup of production, both in its overall aspect and within its various branches, and to determine balanced relations among the links of social reproduction.

I. A FUNDAMENTAL CHANGE IN THE SETUP OF PRODUCTION

After China began its large-scale socialist economic construction in 1953, the productive forces grew rapidly to bring about a fundamental change in the setup of production. This was manifested mainly in the following ways.

(1) With the formation of an independent, relatively comprehensive industrial system, the proportion of modern industry to the whole national economy has increased considerably. Between 1949 and 1980, the total industrial output value went up 46.2 times and its share of the total value of industrial and agricultural output increased from 30 per cent to 70 per cent. Agriculture, light industry and heavy industry have also undergone a significant corresponding change (See Table 1).

The table shows that the relative agricultural output value in comparison to the total value of industrial and agricultural output went down year by year from 56.9 per cent in 1952 to 30 per cent in 1980 while the relative output value of heavy industry went up by big margins from 15.3 per cent in 1952 to 37.1 per cent in 1980, and the output value of light industry

Table 1 Changes in the Proportions in Output Value Among Agriculture, Light Industry and Heavy Industry

| | 1949 | 1952 | 1957 | 1965 | 1977 | 1980 |
|----------------|------|------|------|------|------|------|
| Agriculture | 70.0 | 56.9 | 43.3 | 37.3 | 28.1 | 30.0 |
| Light Industry | 22.1 | 27.8 | 31.2 | 32.3 | 31.6 | 32.9 |
| Heavy Industry | 7.9 | 15.3 | 25.5 | 30.4 | 40.3 | 37.1 |

Note: The figures in this table are based on prices in the indicated years.

also increased year by year from 27.8 per cent in 1952 to 32.9 per cent in 1980. These changes in the setup of production led inevitably to a corresponding change in the composition of the national income: the proportion of agriculture went down, while the proportions of industry and the building industry climbed up (See Table 2).

Table 2 Composition of the National Income from Different Branches of the Economy (the total national income is taken as 100)

| | 1952 | 1957 | 1965 | 1980 |
|--------------------|------|------|------|------|
| Industry | 19.5 | 28.3 | 36.4 | 46.8 |
| Agriculture | 57.7 | 46.8 | 46.2 | 40.3 |
| Building Industry | 3.6 | 5.0 | 3.8 | 3.9 |
| Transport Industry | 4.3 | 4.3 | 4.2 | 3.5 |
| Commerce | 14.9 | 15.6 | 9.4 | 5.5 |

Meanwhile, the number of industrial departments has increased year by year along with the level of modernization.

Before Liberation, China could not manufacture aircraft, motor vehicles or tractors. By 1980 not only could China make them, she also went further to establish industrial departments in synthetic fibres, plastics, electronics and atomic energy. Also, industrial bases were built in all major areas of the country, eliminating the poor distribution of industry that had heavy industry concentrated in northeastern China and light industry in the big coastal cities.

(2) Agricultural production grew considerably with steady improvements in farming methods and water conservancy projects carried out over the past three decades. In 1980, tractor-ploughed farmland in China accounted for 41.3 per cent of the total farmland. An average of 127.5 kilogrammes of chemical fertilizer (counted on the basis of 100 per cent effective) were applied per hectare of farmland. The rural power consumption reached 32.1 billion kilowatt hours, about 10.7 per cent of the total national output. In 1979, China's total grain output came to 332.1 million tons, 218.9 million tons more than in 1949, and the per-hectare yield counted on the basis of the cultivated land rose to 2.73 tons, 1.7025 tons more than in 1949. Of the total output value of agriculture, forestry, sideline occupations and fisheries, agriculture constituted 82.5 per cent, forestry 0.6 per cent, animal husbandry 12.4 per cent, sideline occupations 4.3 per cent and fisheries 0.2 per cent in 1949. In 1978, agriculture accounted for 67.8 per cent, forestry 3 per cent, animal husbandry 13.2 per cent, sideline occupations 14.6 per cent and fisheries 1.4 per cent.

(3) Communications and transport greatly expanded. The total length of the railway lines opened to traffic in China rose from 22,000 kilometres in 1949 to 50,400 kilometres in 1978. The total length of highways in operation increased from 80,700 kilometres to 890,200 kilometres during the same period. Inland shipping routes totalled 136,000 kilometres in 1978 as against 73,600 kilometres in 1949. The freight carried by rail, road and water in 1980 rose by 30, 31 and 79 times respectively over 1949. All the provinces, municipalities and autonomous

regions of China, except Tibet, were accessible by rail. Highways reached all counties in the country except Medog in Tibet and Derong in Sichuan. Passenger aircraft flew over 160,000 kilometres over China's mainland and reached about a dozen countries over 15 routes. An ocean-going shipping fleet was built to carry goods to and from more than 100 countries and regions in the world. Post and telecommunications also developed considerably.

(4) Domestic and foreign trade grew rapidly. Between 1949 and 1978, the total retail sales in China rose from 14.05 billion yuan to 155.9 billion yuan, consumer goods increasing from 13.38 billion yuan to 126.5 billion yuan, and agricultural means of production from 670 million yuan to 29.37 billion yuan. The total volume of foreign trade rose from 4.15 billion yuan in 1950 to 56.3 billion yuan in 1980.

(5) The technological foundation of the national economy markedly improved with its change from the main dependence on manual labour to a combination of automation, semi-automation, mechanization, semi-mechanization and manual labour.

The living standard of the Chinese people greatly improved with the development of production in the course of transforming the setup of production in China.

However, owing to the "Left" error of contemplating rash success in guiding ideology over economic work, the setup of production after 1958 in China veered towards irrationality and lopsidedness. The ten years of the "cultural revolution" made matters even worse.

II. THE LOPSIDED SETUP OF PRODUCTION IN 1976

When the "gang of four" was smashed in 1976, the setup of production — particularly the relationship between agriculture, light industry and heavy industry — had been seriously unbalanced for a long time, causing great difficulties in the

proportionate development of the national economy. Undue emphasis on the development of heavy industry left agriculture far behind industry, light industry far behind heavy industry, and the mining and raw materials industries behind the manufacturing industries.

First of all, agricultural production in relation to the total output value of industry and agriculture dropped too much. In 1949, agriculture accounted for 70 per cent of the total value of industrial and agricultural output. In 1976, 27 years later, it dropped to 30.4 per cent. Agriculture dropped from 62.3 per cent of the net value of industrial and agricultural output in 1957 to 37 per cent in 1960. Although it climbed back to 50-60 per cent, it fell again to 47 per cent in 1975. While it is true that in the course of industrialization, all countries experience a drop in the proportion of agricultural production, that drop is ordinarily accompanied by an improved agricultural productivity and a reduced rural population. Just the opposite happened in China, where a farm labourer produced an average of 946.5 kilogrammes of food grain in 1952, 1,010 kilogrammes in 1957, and 972 kilogrammes in 1976. In other words, the per-labourer output in 1976 was only 2.7 per cent higher than in 1952, but it was 3.8 per cent lower than in 1957. The proportion of the rural population to the total population was 84.9 per cent in 1976, 0.7 per cent lower than in 1952, but it was 2.3 per cent higher than in 1949. Also, starting in 1961, China turned from being a grain exporter country to a grain importer, with annual imports averaging 2.25 million tons between 1970 and 1976. In the following several years, annual imports exceeded as much as 10 million tons. At the same time, industry grew at a rapid pace. Compared with the total output value of 1952, in 1976 agriculture rose 2.07 times, industry 12.3 times, heavy industry 21 times and light industry 7.6 times. These figures show that the industrial development exceeded the supporting capability of agriculture which became a weak link in the national economy.

Meanwhile, the long neglect of light industry left it far behind heavy industry. And while the growth rate of light industry lagged behind (between 1953 and 1976, light industry grew an average of 8.8 per cent annually, heavy industry, 13.5 per cent), the light industrial products needed directly by big industries increased year by year. According to statistics from 16 provinces about the products controlled by the second light industrial bureaus, the percentage of those for the big industries rose from 27.7 in 1965 to 34.2 in 1978, and the percentage of those for the market dropped. Furthermore, the different departments of heavy industry were also unevenly developed with the manufacturing industries growing faster than the other departments. The proportion of the manufacturing industries to the whole of heavy industry in terms of output value rose from 41.9 per cent in 1952 to 52.8 per cent in 1975. During the same period, the proportion of the mining and raw materials industries dropped from 58.1 to 47.2 per cent.

The following is an analysis of the different industrial departments.

1. IRON AND STEEL INDUSTRY

In heavy industry, the real front-runner has been the iron and steel industry while other areas — energy, transport vehicles and building materials — have fallen behind to become the weak links in the national economy. The output value of the iron and steel industry in China in 1975 rose 19.5 times as compared with 1952; steel output 17.7 times. During the same period, the output value of the food industry, textile industry and paper industry rose only 4, 4.2 and 6.1 times respectively. The one-sided development of the iron and steel industry over other areas of industry gave rise to some problems within the industry itself:

(1) As it developed, the iron and steel industry turned out more and more of its products for the production of the

means of production. In 1976, 28.5 per cent of the steel products in China were used to build machinery (the figure was 31.1 per cent during the whole Fourth Five-Year Plan period — 1971-75), higher than the 24.6 per cent in 1953. Meanwhile, light industry consumed only 12.3 per cent in 1976 of the steel products, about half that of 1953. In other words, the iron and steel industry failed to support or promote any corresponding development in the other industries.

(2) The geographical distribution of the industry left a lot to be desired. After 1958, all provinces developed their own iron and steel industry merely to establish their own industrial system without considering whether it was feasible or not in economic and technical terms. After 1963, many iron and steel plants were built in remote areas without considering local resources, transport and economic conditions. The iron and steel complexes at Baotou and Wuhan built after Liberation and the Capital Iron and Steel Complex in Beijing expanded after Liberation were far away either from their iron mines, or from the coking coal producing centres. Of 28 iron-producing provinces, municipalities and autonomous regions, 16 do not have sufficient iron ore supplies. This illogical geographical distribution within the iron and steel industry has not only made its own expansion difficult, but has also exerted tremendous pressure on the transport industry.

(3) The many small and medium-sized iron and steel enterprises, which produced 10 per cent of China's iron and 6.8 per cent of her steel in 1975, have not given a satisfactory return for investment. Too many were built in the first place, with local governments footing the entire bill for their construction. The proportion of investment in the local iron and steel industry to the total investment in the industry rose from 8 per cent during the First Five-Year Plan period (1953-57) to 51.9 per cent during the Fourth Five-Year Plan period. Meanwhile, though the proportion of profits and taxes to the investment in 1976 was 11.6 per cent for big iron and steel enter-

prises, it was -8.1 per cent for medium-sized enterprises and -9 per cent for small enterprises, reducing the proportion to 5.3 per cent for the whole iron and steel industry in China.

(4) The expansion of mining, smelting and steel rolling has been unbalanced. Production capacities for ore mining and steel rolling were smaller than iron smelting and steel making capacities. In other countries, the ratio between the steel rolling and making capacities is 1:1, or the rolling capacity is even larger than the making capacity. In China, the ratio has been 0.67:1. Therefore, the problem of too many steel ingots and unneeded rolled steel remains.

(5) Product mix was inadequate to meet the needs. Unwanted steel products stockpiled as quantity was emphasized over variety and quality. At the end of the years between 1971 and 1976, the annual amount of steel products in stock totalled 12.34 million tons, 70.8 per cent of the annual average domestic consumption or 80.6 per cent of the annual average output during the same period. In other countries, the amount in stock is in general about 30 per cent of the domestic consumption. Moreover, steel imports increased sharply. Between 1971 and 1976, China imported a total of 18.784 million tons of steel products, about 17 per cent of her domestic consumption or 20.4 per cent of her output during the same period. In 1976, 4.592 million tons of steel products were imported, 31.3 per cent of the output that year or 24.1 per cent of the domestic consumption.

Another problem was the high ratio between iron and steel which equalled the level of the world's major steel-producing countries in the early years of this century. The average specific value between iron and steel which was one in the world in the year 1914 was 1.09 in China in 1976. The high specific value, the poor geographical distribution within the industry and the great number of small and medium-sized enterprises caused the per-unit consumption of energy to be far higher than that in the world's major steel producers.

2. THE MACHINE-BUILDING INDUSTRY

(1) The growth rate of the machine-building industry and the number of its enterprises were too high. In 1976, the number of the enterprises was about one-third of all industrial enterprises in China.

As a result of the one-sided growth of the industry, its processing capacity was far larger than the supply of steel products. Calculated on the basis of comparable figures, the number of machine tools in operation in China's industrial enterprises in 1976 was 7.6 times that in 1957, while the output of steel products in the same year was only 3.5 times that of 1957. The average amount of rolled steel per machine tool in China in 1976 — 8.5 tons — was much smaller than that of the industrially developed countries: It was 37.9 tons in the United States and 50 tons in Japan in 1973, 24 tons in France in 1974, and 21.6 tons in the Soviet Union in 1973. If calculated on the basis of the actual consumption in production and capital construction in 1976, the average amount of steel products in China per machine tool was only 4.65 tons.

(2) China's machine tools were poor in terms of both quality and composition, leading to bad processing work and large consumption of energy and materials. Ordinary lathes accounted for 42 per cent of the total number of machine tools. The percentage of lathes in the United States was only 21.3 per cent in 1977. On the other hand, milling machines in China accounted for 11 per cent while the figure was 22.1 per cent in the United States. The working speed of Chinese tools was only half that in developed countries; the degree of automation was even lower. There was more working by the cold process, less working by the hot process. This was also one aspect of the undesirability of the composition of Chinese tools. The utilization rate of steel products in the developed countries was as high as 85-90 per cent, but it was only 62.6 per cent in China in 1977. And although China had 34 hydraulic presses, each with a working capacity of 1,000 tons or more — about the

same number as in the European Economic Community countries — the technological accessories were incomplete. On the one hand, presses were working under capacity, and on the other, China had to import big forgings from abroad.

(3) The utilization rate of machine tools became lower and lower. In 1976, the rate was only 57.5 per cent.

After 1972, China had a large annual output of metal-cutting tools — 174,900 units in 1975 and 157,000 in 1976. A comparison in steel production between China in 1976 when she produced 157,000 tools and the developed countries in the year when they produced 160,000 tools (See Table 3) shows that all these countries produced more than 40 million tons of steel products, about three times China's output in 1976.

Most mechanical products in China were machine tools. The quantity of other engineering products, durable consumer goods in particular, was very small. (See Table 4)

Table 4 shows that when the steel output was nearly the same, China's output of machine tools was 2.42 times that of the Soviet Union, and 1.96 times that of Japan, but the output of metallurgical equipment, tractors, merchant ships and freight wagons were all lower than that of the Soviet Union and Japan. The output of motor vehicles was also much smaller than that in these two countries. Although the output of mining equipment was higher than that of Japan (Japan has almost no mineral resources and therefore produces less mining equipment), it was only 69 per cent of that of West Germany. The quantity of high-grade, precision and sophisticated engineering products was even much smaller.

The snowballing situation in machine tools production in China was not only related to high profits in machine building but also was inseparable from the unusual demand for machine tools created by the long efforts of all departments and localities and even all enterprises to establish their own independent systems and the reckless establishment of enterprises by people's communes or their subdivisions. About one-third of the machine tools in China were owned by enterprises un-

**Table 3 Output of Steel and Steel Products in China
and Developed Countries When They Produced About
160,000 Machine Tools a Year**

| | China | U.S. | U.S. ¹ | Japan | W. Germany | USSR | Britain | France |
|-----------------------------------|-------------|-------------|-------------------|-------------|-------------|-------------|-------------|-------------|
| Year | 1976 | 1950 | 1971 | 1967 | 1973 | 1960 | 1952 | 1969 |
| Machine tools (thousand units) | 157 | 160 | 157 | 154 | 156 | 156 | 112 | 32 |
| Steel products (million tons) | 14.66 | 68.21 | 78.96 | 50.44 | 40.23 | 44.81 | 12.63 | 17.99 |
| Steel Output (million tons) | 20.46 | 87.85 | 109.27 | 62.15 | 49.52 | 65.29 | 16.68 | 22.51 |

SETUP OF PRODUCTION

Notes:

(1) Since 1949, the output of machine tools in the United States has fluctuated between 130,000 and 240,000 units. For example, the output was 230,000 units in 1951 and 211,000 units in 1976.

(2) The output in Britain and France has never reached 157,000 units. The figures in the table are the post-war peak highs in the two countries.

Table 4 Output of Major Mechanical Products When 20 Million Tons of Steel Were Produced Annually in China and Other Countries

| | China | USSR | Japan | W. Germany | Britain | France | Italy | India |
|---|---------|---------------------|---------|------------|---------|---------|---------|---------------------|
| Year | 1976 | 1949 | 1960 | 1955 | 1959 | 1968 | 1973 | 1976 ⁽²⁾ |
| Steel output (million tons) | 20.46 | 23.29 | 22.14 | 21.34 | 20.51 | 20.41 | 21.00 | 9.14 |
| Power output (million kwh) | 203,100 | 78,300 | 115,600 | 76,500 | 121,200 | 117,900 | 145,600 | 96,000 |
| Power equipment (thousand kw) | 4,000 | 900 | 2,410 | 2,540 | 5,090 | 3,020 | 4,650 | |
| Mining equipment (thousand tons) | 162 | | 40.4 | 236 | | 47.3 | | |
| Metallurgical equipment (thousand tons) | 61 | 11.1 ⁽¹⁾ | 145 | 90 | | 39.8 | | |
| Machine tools (thousand units) | 157 | 65 | 80 | | | 25 | | |
| Motor vehicles (thousand units) | 135 | 276 | 482 | 909 | 1,580 | 2,075 | 1,960 | 81 |
| Tractors (thousand units) | 74 | 93 | 5 | 149 | 165 | 60 | 99 | |
| Merchant ships (thousand tons) | 815 | | 1,732 | 929 | 1,373 | 490 | 753 | 45 ⁽³⁾ |
| Freight wagons (thousand units) | 8 | 43.6 | 8.8 | 16 | 21 | 11 | | |

Notes:

- (1) The 1950 figure.
- (2) India's annual steel output did not reach 20 million tons.
- (3) The 1975 figure.

der the nine machine-building departments, one-third were owned by other industrial enterprises, and one-third by enterprises run by local governments, people's communes and their subdivisions. All these enterprises used one-third of their machine tools in their own repair and maintenance systems, and the utilization rate was only 10-30 per cent.

3. LIGHT INDUSTRY

Light industry accounted for 44.2 per cent of the total industrial output value of China in 1976, compared with 64.5 per cent in 1952. Although light industry expanded after Liberation, it lagged behind other industries in the growth rate and less and less importance was given to its development.

(1) The equipment, factory buildings, technological processes and products of light industry were outdated. According to figures provided by Guangdong Province, dangerous factory buildings in light industry occupied some 560,000 square metres in floor space — about 15 per cent of the total floor space of the factory buildings of the province's light industry. About 30 per cent of the 27,000 units of major equipment under the Second Bureau of Light Industry in Guangzhou needed to be updated. Wood-and-iron weaving frames still accounted for 5 per cent of the total number of looms in the city's weaving industry. About 70 per cent of the machines and tools being used in the knitting industry were made in the 1930s and 1940s. The printing and desizing processes in the towel mills were still dominated by wood sticks and pottery jars.

(2) The processing technique was far from satisfactory. More semi-finished products were made in light industry than finished products. In the textile industry, there were more gray goods than high-grade fabrics and ready-made gar-

ments. Resin-finished textiles made up only 4.9 per cent of the total of textiles in China. Pre-shrunk textiles were not common and their quality was unstable. Gray goods, raw silk, gray silk or other semi-finished products accounted for 63 per cent of the country's total textile exports. Finished products constituted only 37 per cent. Gray cloths and bleached cloths made up more than half of the cotton goods exports, and yarn-dyed fabrics and prints 45 per cent. More than 80 per cent of the export silk goods were gray goods and less than 20 per cent were prints and dyed silk fabrics.

(3) Consumption of raw materials and electric power by light industry was very high. Although caustic soda and soda ash were in short supply in China, the amount of caustic soda consumed by the paper industry was rising. About 507 kilogrammes of caustic soda were consumed per ton of chemical wood pulp in 1976, 12.4 per cent more than in 1970. The amount of timber consumed by the paper industry also rose. In 1976, some 2.54 cubic metres of timber were consumed per ton of mechanical wood pulp, 7.6 per cent more than in 1964. The consumption of electric power and coal also increased. The power consumed per hundred metres of cotton goods in 1976 was 19.6 kilowatt hours, 40 per cent more than in 1962.

(4) The output of consumer goods produced by light industry fell far short of the market demand. It was estimated that China needed 35 per cent more paper, one-third more sugar and 50 per cent more detergents than she could produce. There were also shortages of textiles, bicycles, sewing machines and furniture.

The slow growth of light industry in China did not come about overnight. Beginning in the Second Five-Year Plan period, investment in light industry became smaller and smaller under the policy of giving one-sided emphasis to the development of heavy industry with "steel as its key link". The investment in light industry in 1976 was 5.2 per cent of the total capital construction investment in China, compared with 9.3 per cent in 1952. Light industry accounted for 5.9 per

cent of the total capital construction investment of the country between 1953 and 1976. Not only was investment in light industry insufficient, the depreciation funds of the existing enterprises in the industry were also often taken away for other purposes, making it difficult for many enterprises to maintain their reproduction.

Another important factor was the long instability of agricultural production which supplies raw materials for light industry. The sluggish growth of industrial crops, timber products and animal products seriously affected the textile and other light industries. The output value of light industrial goods made of industrial products increased at an annual rate of 9.6 per cent during the Third Five-Year Plan period and 8.2 per cent during the Fourth Five-Year Plan period while the corresponding figures were 7.9 per cent and 7.5 per cent for the output value of those made of agricultural products. During the Fourth Five-Year Plan period, the output value of cotton yarn and cotton cloth increased at an annual rate of 0.5 per cent, compared with the 8.9 per cent for chemical fibres. The four raw materials, hides and skins, oil-bearing crops, sugar-yielding crops and wool, met 30 per cent, 50 per cent, 70 per cent and 80 per cent of the needs respectively.

4. AGRICULTURE

(1) For a long time the per-capita consumption of agricultural products was low, and the supply of many agricultural products fell short of demand. The 1976 grain output per capita in China was 309 kilogrammes, only 3 kilogrammes more than in 1957. In terms of per-capita output, cotton and oil-bearing crops in 1976 reached 2.2 kilogrammes and 4.35 kilogrammes respectively, 14 per cent and 34 per cent less than in 1957. The slow agricultural growth and fast population growth turned China from an exporter of these farm products to an importer.

Timber, animal and fishery products were in short supply for many years. The per-capita output of pork, beef and mutton in China in 1976 was 8.45 kilogrammes, about 36 per cent of the average world level. The per-capita output of aquatic products in China in 1976 was 4.8 kilogrammes, 27.3 per cent of the world average in 1975. Also, even to maintain the minimum national consumption level, China needed several million cubic metres more of timber every year than she could produce.

(2) The different branches of agriculture were not in balance. In 1976, farm products accounted for 69.3 per cent of the total agricultural output value while timber, animal, sideline and fishery products made up 30.7 per cent. The different branches of agriculture were almost in the same proportions as in the early years after Liberation except that sideline occupations grew with the flourishing of small enterprises run by communes and their subdivisions.

(3) Agricultural labour productivity remained at a very low level. Labour productivity dropped though the use of farm machinery increased to a certain degree. For many years, China's agricultural growth came mainly from the increase in the farm labour force. The agricultural economic structure in China had been going in the opposite direction of normal development: while the ratio of net agricultural output value has dropped, the ratio of agricultural population went up.

(4) The commodity rate of agricultural products in China was low. In 1976, the commodity rate of food grains was less than 15 per cent. The value of agricultural and sideline products which peasants sold to the state was about two-fifths of the total net value of agricultural output.

5. ENERGY PRODUCTION

The energy problem was already serious when the "gang of four" was smashed in 1976. In industrial production, there

was an annual shortage of 10 million tons of standard coal and 10 million kilowatts of power equipment. In 1977, one-fourth of the industrial enterprises operated under capacity and 20-30 per cent of industrial equipment could not run normally because of the shortage of fuels and electric power. This meant a loss of 70 billion yuan in industrial output value a year. China had farm machinery with a capacity of some 200 million horsepower, yet she could supply only 8 million tons of diesel oil a year, providing an average of 50 kilogrammes per horsepower, enough for one or two months.

Meanwhile, this short supply of energy was accompanied by great waste of energy. The growth rate of energy production in China was by no means slow, and the total energy consumption in 1976 was almost the same as in Japan. But China's national income was only one-third of Japan's. There were too many small enterprises which, poorly managed and using backward processes, consumed too much energy. The average consumption of energy for the production of per-ton synthetic ammonia by the big and medium-sized plants was 2 tons of standard coal, 9.1 per cent lower than in 1966. However, if the small plants were taken into account, the average consumption increased to 2.8 tons of standard coal, 27.3 per cent more than in 1966. The per-unit product energy consumption in the iron and steel industry was much higher than in the world's major steel producing countries. In 1976, the average energy consumption per ton of steel once went up to 3.1 tons. As the ratio of rolled steel to total steel output was low in the country, energy consumption per ton of rolled steel was even higher. China's small iron and steel enterprises consumed seven times more energy per ton of steel than the large enterprises.

The irrational internal structure of energy production brought it a hidden danger and difficulties. The amount of oil production was out of proportion to oil reserves. Emphasis was laid on production to the neglect of prospecting. The same was true in coal production. Not only were coal digging and

tunnelling unbalanced, the ratio between the capacity of new coal shafts and increased production was also unsatisfactory. The ratio was 1:1 during the First Five-Year Plan period, but it went up to 1:3.18 in 1976. This led to the destructive exploitation of coal resources at the expense of maintenance and construction.

China's changing energy policy for many years on the question of coal, petroleum, natural gas and hydraulic power had serious consequences. In the early 1970s, owing to over-optimistic estimates on oil resources, reckless attempts were made to accelerate the use of oil as the main fuels for industry. Construction of coal mines was slowed down. Investment in the coal industry dropped from 14 per cent of the total industrial investment during the Second Five-Year Plan period to 9 per cent after 1966. A large amount of funds was used for converting some of the coal-fueled power stations into oil-fueled ones and a number of new oil-fueled power stations were built. Consequently, about one-third of the oil was burned as common fuel. In recent years, the oil-fueled power stations had to be changed back into coal-fueled ones. It was estimated that billions more yuan would be needed for the conversion.

6. COMMUNICATIONS AND TRANSPORTATION

Major weak links in China's national economy were communications and transportation. Both passenger and freight transportation were far from adequate. The transport capacities of one-third of the 120 sections of China's railways reached the saturation point, and another ten of the sections could meet only 45-70 per cent of the needs. Only 67 per cent of the highways could be used in all weather. Inland shipping routes did not increase, but were reduced by 10,000-15,000 kilometres in the years after 1962. The handling capacities of the coastal harbours were insufficient. Only 137 berths were available

for accommodating ships of 10,000 tons or above, and only 90 of them could be used for foreign trade. The transport capacity of the major railway lines leading to the coastal harbours was far smaller than the handling capacity of the harbours. The long-distance passenger trains were often overcrowded, so much so that they carried 30 per cent more passengers than their designed capacity, or 100 per cent more if they were in suburban areas.

A lack of rational division of labour and coordination existed among the different means of transport. Transportation within a distance of 50 kilometres accounted for 14.3 per cent of all rail transportation. Civil highway motor vehicles had a surplus capacity, but they could not help to ease the heavy demands on the railways. Between 1952 and 1976, while the civil trucks owned by the communications departments dropped from 54.3 per cent of the national total to 16.8 per cent, those owned by the non-communications departments rose from 45.7 to 83.2 per cent. On the average, three trucks owned by the non-communications departments could only handle what one truck owned by the communications departments did. As a result, a lot of oil and transport capacity was wasted.

The communications and transport industry for a long time failed to meet the needs of the development of the national economy because of relatively insufficient investment and the wrong use of the investment funds in the industry. Between 1953 and 1976, the industry (including post and telecommunications) accounted for 17.4 per cent of the total investment in capital construction. In 1976 when the total state investment increased 8.3 times over 1952, the entire industrial investment rose 11.5 times. But the investment increased only 5 times in the railways, 7.3 times in the communications and transport industry, coming after the 8.4 times in the coal industry, the 9.5 times in the metallurgical industry and the 24.6 times in the petroleum industry.

The use of capital construction investments in the communications and transport industry was irrational too. The

areas east of the Beijing-Guangzhou Railway are economically developed, with a heavy concentration of industries, a dense population and abundant natural resources. The 11 coastal provinces and municipalities account for 50.8 per cent of the national total output value of industry and agriculture, which explains that 80 per cent of the country's rail traffic is concentrated in these areas. But after the Second Five-Year Plan period, the areas far away from the coastal areas took up the bulk of the capital construction investments in communications and transport. While the renovation of the existing railways was neglected, new railways built in the areas west of the Beijing-Guangzhou Railway accounted for 75.4 per cent of the total length of the railways under construction and 83.6 per cent of the investments in railway construction.

Of the six economic departments described above, development was slow in the foundation department (agriculture) and the vanguard departments (energy and transport) while the manufacturing industries were expanded excessively (mainly the departments manufacturing means of production). The capacities of the light industrial enterprises using raw materials from agriculture to make consumer goods became surplus while those of the enterprises using raw materials from industry for the same purpose were still far from enough. This threw the national economy into a very difficult position by leading to the unbalanced development of agriculture, light industry and heavy industry, the imbalance between the two departments of social production, i.e., the production of the means of production and the production of the means of subsistence.

III. THE CONTINUATION OF AN UNBALANCED SETUP OF PRODUCTION IN 1977 AND 1978

The restoration and development of China's national economy in 1977 brought an unrealistic optimism. Compared

with 1976, the total industrial and agricultural output value increased 10.7 per cent, the national income 7.8 per cent and the state revenues 12.6 per cent. The output of major industrial products also increased by different margins. In 1978, the total industrial and agricultural output value rose again by 12.3 per cent over 1977, the national income by 12.3 per cent and the state revenues by 28.2 per cent (or 23.4 per cent after deducting 4 billion yuan of depreciation funds calculated on the comparable basis). But the big increases in output of industrial and agricultural products kept many people from realizing the extent of the lopsided development and serious imbalance of the national economy. The ideology of hurrying to achieve success in economic construction once again became rampant and the policies of taking steel as the key link in industrial development and establishing "independent all-embracing economic systems" in all provinces were continued. Moreover, the slogan of "aim high and go all out" was raised improperly, and impractical goals for economic development were set in the absence of scientific data.

Many errors in the policy of economic development cropped up between 1977 and 1978. They were:

(1) The continuance of a high rate of accumulation. The rate of accumulation was 32.3 per cent in 1977 — already too high when both the country and its people wanted to recuperate and build up their strength after ten years of internal disorder. However, the rate rose still higher to 36.5 per cent in 1978. This was the third peak rate, only next to the 43.8 per cent in 1959 and the 39.6 per cent in 1960. In using the accumulations, emphasis was laid on heavy industry to the neglect of other branches of the economy, thus aggravating the one-sided development of the setup of production. This was manifested in the changes in the proportions of investments in agriculture, light industry and heavy industry (See Table 5).

Table 5 Proportions of Investments in Agriculture, Light Industry and Heavy Industry (%)

| | 1952 | 1957 | 1965 | 1977 | 1978 | Total 1952-78 |
|----------------|------|------|------|------|------|------------------|
| Agriculture | 13.4 | 8.6 | 14.6 | 11.5 | 11.1 | 11.9 |
| Light Industry | 9.3 | 8.0 | 4.1 | 7.4 | 6.1 | 5.9 |
| Heavy Industry | 29.5 | 44.3 | 48.0 | 52.2 | 50.9 | 51.0 |

The undue emphasis on the development of heavy industry since 1958 continued when heavy industry accounted for 52.2 per cent of the total capital investment in 1977 and 50.9 per cent in 1978, the average exceeding the figure of 51 per cent between 1952 and 1978.

Another serious problem with the use of accumulations was the neglect of construction of non-productive projects (See Table 6).

Table 6 Proportions of Investments in Productive Construction and Non-Productive Construction to Total Investment (%)

| | 1952 | 1957 | 1965 | 1977 | 1978 |
|-----------------------------|------|------|------|------|------|
| Productive Construction | 66.9 | 76 | 84.7 | 83.3 | 82.6 |
| Non-Productive Construction | 33.1 | 24 | 15.3 | 16.7 | 17.4 |
| Housing Construction | 10.3 | 9.3 | 5.5 | 6.9 | 7.8 |

The figures in Table 6 show that although the proportions of investments in non-productive construction in 1977 and 1978 were 1.4 per cent and 2.1 per cent higher than in 1965, they were 7.3 per cent and 6.6 per cent lower than in 1957. The proportions of investments in housing construction were

only 6.9 per cent and 7.8 per cent in these two years. Obviously, the high rate of accumulation and emphasis on the development of heavy industry put the setup of production even more out of kilter.

(2) Capital construction was over-extended. The total investment in capital construction in 1977 was 36.4 billion yuan, already too much. In 1978, the investment was raised again by 31.5 per cent to 47.96 billion yuan. The number of big and medium-sized construction projects undertaken in 1978 totalled 1,723, or 20 per cent more than in 1977. Next to 1960, this was the second highest year in the past three decades. As a result, the scope of capital construction exceeded the national economic power. According to statistics, the total investment in the projects under construction by the end of 1978 had reached 372.5 billion yuan. The additional 160 billion yuan required to complete all these projects was almost equal to the whole investment in the Fourth Five-Year Plan period. Seven to ten years more would be needed to complete the projects.

(3) The importing of advanced technologies and complete plants from abroad was ill-planned. In 1978, contracts were signed for the import of 22 large, complete plants, requiring an investment of 57.34 billion yuan. If the auxiliary projects for these plants were taken into account, the required sum would come to 71.8 billion yuan, or 92.5 per cent of the total state revenues in 1976. Obviously, this was out of the reach of the national economic power. Moreover, the present scientific, technological and managerial levels were overestimated. No studies were made of the technical and economic feasibilities. Without proper preparations behind them, the projects turned out to be unrealistic in many ways. Many of the contracts were signed in great haste in the hope that more time would be gained to build the projects. It would have taken other countries 7 or 8 years to make preparations for a project the size of the Baoshan Iron and Steel Complex near

Shanghai but the decision in China was made in a few months. The projects started in this way were confronted with many problems which made it difficult for them to produce expected results.

The "Left" ideology in China's economic construction was manifested in different ways in 1977 and 1978. In 1977, it was characterized by an undue emphasis on the development of projects related to the agricultural mechanization. In 1978, it was characterized by a "huge construction programme" and "importing large numbers of complete plants".

The impractical slogan of achieving initial agricultural mechanization by 1980 was raised at the end of 1976. Under the influence of this slogan, large numbers of small chemical fertilizer and farm machinery plants sprang up all over the country. According to statistics in 1977, the number of chemical fertilizer and insecticide enterprises increased by 630 or 9.2 per cent over 1976, and farm machinery plants by 757, or 7.7 per cent. The development of these small plants, plus the reckless expansion of the commune-run and brigade-run industry, created an unusual demand for machine tools and small chemical fertilizer equipment. In 1977, 198,700 machine tools were produced, setting a record for China. Shooting ahead in output among the major industrial products in 1977, chemical fertilizers for farm use increased by 38 per cent, tractors 34.7 per cent, walking tractors 33.5 per cent, chemical fibres 29.9 per cent and machine tools 26.6 per cent. Four of the five products were all related to the blind effort to achieve agricultural mechanization. The small farm machinery plants in particular turned out products of inferior quality at high costs so that many of them were unmarketable. More and more farm machines were overstocked. According to statistics by the end of 1979, stocked farm machines in China were worth more than 6 billion yuan, including 2.5 billion yuan worth of goods which had been overstocked for many years and about 700 million yuan worth of goods which had to be scrapped. Obviously, the

excessive demand for farm machinery in disregard of objective reality compelled the machine-building plants, the farm machinery plants in particular, to overproduce farm machines, which only made the setup of production even more irrational.

The ten-year economic development programme drawn up in 1978 was even more unrealistic. The goals set for 1985 included 60 million tons of steel, 250 million tons of oil and 400 million tons of grains. Under this programme, China would build or continue to build 120 major projects, including 10 iron and steel centres, 9 non-ferrous metals centres, 8 coal centres, 10 oil and natural gas fields, 30 big power stations, 6 new trunk railways and 5 major harbours. All these gave more impetus to the iron and steel industry. Four of the five major industrial products that topped the 1978 list of growth rates were iron and steel products. They were pig iron (38.9 per cent), rolled steel (35.2 per cent), steel (33.9 per cent) and iron ore (25.5 per cent). The other was chemical fibres (49.9 per cent). To achieve the 1978 goal of 30 million tons of steel, many steel plants produced more ingots, thick and medium plates which, unwanted, were put into warehouses. By the end of that year, the stocked steel products came to 15.5 million tons, 29 per cent more than in 1976. Moreover, a large quantity of metallurgical equipment was produced for nothing. According to 1980 statistics, overstocked metallurgical equipment in China was worth more than 700 million yuan, and a considerable part of it was turned out in 1977 and 1978.

It was also proposed under the ten-year programme that full attention should be paid to the development of small iron and steel plants, small chemical fertilizer plants, small farm machinery plants, small cement works and small coal mines. The small plants turned out 6.8 per cent of the national total output of steel in 1975, 7.6 per cent in 1977 and 9.7 per cent in 1978. They turned out 10 per cent of the national total output of iron in 1975, 12 per cent in 1977 and 14.4 per cent in 1978.

They produced 69 per cent of the national total output of chemical fertilizers in 1975, 65 per cent in 1977 and 59.4 per cent in 1978. The proportions dropped a little in chemical fertilizer production mainly because the big plants imported from abroad were put into operation one after another, sharply pushing up the total output. The output of the small cement works and small coal mines grew even faster. The small iron, steel and chemical fertilizer plants were generally characterized by high consumption of energy, great waste of material resources, poor quality of products, high cost and heavy losses. In 1978, China's industrial departments suffered a loss of more than 4 billion yuan, more than half of it (2.2 billion yuan) attributed to the small plants. In addition, the development of the small enterprises made the setup of production even more undesirable.

In contrast to the rapid expansion of the iron and steel and machine-building industries, the energy, transport and other vanguard industries were relatively left behind. In 1976, energy supplies were already in great demand. The rapid growth of iron and steel plants and other high energy-consuming enterprises in the following two years made matters even worse, compelling many factories to operate four days a week. Moreover, the different departments of the energy industry itself became more unbalanced as shown by the imbalance between oil extraction and reserves and between prospecting for new oil fields and developing old fields. The excessive production of crude oil caused a fast progressive drop in the output of the existing fields. The rate of decrease in the output of the oilfields throughout the country was 2.5 per cent in 1975, but it rose to 5.1 per cent in 1976 and 6 per cent in 1978. As the old fields already reached their peak production level and no new fields were in operation, it became difficult to maintain existing production levels. The over-optimism over petroleum production and the neglect of coal exploitation would make it dif-

ficult for a few years to come to ease the short supply of energy.

The oil-fueled engines industry grew fast after 1970, especially in 1977 and 1978. But the average supply of oil per unit of horsepower dropped almost by half in the two years as compared with the early 1970s. This forced the oil-fueled engines to operate under capacity, or even to lie idle. In 1978, 4 per cent of the total output of petroleum was used as raw materials for the chemical industry. When the petrochemical and fertilizer plants under the contracts signed with foreign firms in 1978 are completed, the figure will rise to 10 per cent. It was estimated that the 22 large imported plants would require more than 10 million tons of oil and 10 million tons of coal each when they were in operation. This was obviously out of line with the energy supplies. Therefore, construction of some of these imported projects had to be halted or postponed.

The problem in the transport industry also grew acute. The specific value between the growth rate of the transport volume and the growth rate of the total industrial and agricultural output value was 1.0 in 1977-78, but it was 2.3 during the First Five-Year Plan period, 2.1 during the Second Five-Year Plan period and 0.6 in 1966-75. Owing to insufficient transport facilities, large quantities of coal stocked in Shanxi Province in 1979 could not be shipped out, and some of the coal burned spontaneously. Insufficient facilities to handle goods at harbours forced foreign vessels to stay at berth longer. In 1978, this caused a loss of 80 million U.S. dollars.

The development of light industry was even more neglected in 1977 and 1978 than it had been for many years before.

The growth rate of light industry was 14.3 per cent in 1977. It looked very high, but it was in some measure an indication of rehabilitation. The growth rate dropped to 10.8 per cent in 1978 while that of heavy industry rose to 15.6 per cent (See Table 7).

Table 7 The Growth Rates of Light and Heavy Industries (% over the Previous Year)

| | 1977 | 1978 |
|----------------|------|------|
| Industry | 14.3 | 13.5 |
| Light industry | 14.3 | 10.8 |
| Heavy industry | 14.3 | 15.6 |

The slow growth of light industry also had something to do with agricultural production. Light industry relied on agriculture for 70 per cent of its raw materials. Continued implementation of the policy of concentrating on grain production in disregard of the natural conditions in different localities in those two years gave little room for industrial crops. This hindered the development of the diversified undertakings, making it very difficult to supply raw materials for light industry.

In summary, the contradictions in the setup of production became even more acute during the 1977-1978 period. The relations among agriculture, light industry and heavy industry became even more disproportionate; more than ever, agriculture and light industry were left behind; and the energy and transport industries remained lethargic. Moreover, the reckless expansion of small and medium-sized enterprises, particularly the commune-run industry, made the relations between the manufacturing industry and the raw materials industries even more unbalanced. The competition between small and large factories for raw materials and the establishment of poorly run enterprises at the expense of well run ones caused great damage to the economy. The unbalanced development of the setup of production not only brought great waste and unsatisfactory economic performances but made it possible for financial deficits to occur.

IV. THE CAUSES FOR THE UNBALANCED SETUP OF PRODUCTION

The unbalanced setup of production in China came into being over the two-and-a-half decades since 1958 through the mistakes of seeking high production targets, giving arbitrary instructions to undertake economic activities and encouraging a premature advance to communism, all of which consequently led to the unbalanced development of the national economy. Between 1962 and 1965, the policy of "readjustment, consolidation, filling up and raising standards" gradually balanced the development of the different branches of the national economy. However, this was interrupted by the "cultural revolution". Imbalance once again occurred in the national economy and lasted much longer with extremely bad consequences. In the two years following the smashing of the "gang of four" in 1976, the setup of production became even more unbalanced as a result of the failure to have a full understanding of the lopsided development of setup during the ten years of the "cultural revolution". The economic situation began to turn for the better after the Third Plenary Session of the 11th Central Committee of the Communist Party of China in December 1978 adopted the new policy of readjusting, restructuring, consolidating and improving the national economy. The causes for the unbalanced setup of production are very complicated. Here is a brief discussion on some fundamental questions concerning guiding ideology and basic policies.

The "Left" ideology which for a long time prevailed in the economic sphere has mainly been in error in its advocacy of the attempt to achieve quick success. This has been manifested in the following aspects:

- (1) High growth rate was sought without consideration for economic balance.

In China's socialist construction, it has long been the practice to seek a high growth rate. Economic construction was

treated in a very simple way, and over-ambitious production targets were set in disregard of objective reality. To reach these high targets, large-scale capital construction was carried out, which needed a high accumulation rate. However, the dependence of economic growth on existing economic conditions, and especially its relationship to economic returns, was ignored. In fact, growth rate was taken as the starting point and end-result of economic development plans.

Undue emphasis on high growth rate created great waste and poor economic return. More haste, less speed. The total industrial and agricultural output value in 1958 and 1959 rose 32.2 per cent and 19.5 per cent respectively over the previous year. The growth rate looked fast, but in 1961 and 1962, the total industrial and agricultural output value dropped by 30.9 per cent and 10.1 per cent respectively compared with previous year. The total industrial and agricultural output value during the Second Five-Year Plan period rose only by 0.6 per cent a year and the total industrial output value only by 3.8 per cent. During the First Five-Year Plan period, the total industrial and agricultural output value and the total industrial output value rose annually by 10.9 per cent and 18 per cent respectively. During the Third and Fourth Five-Year Plan periods, there was a new great expansion of industry which saw the total industrial labour force, total payroll and total sale of food grains all exceeding the 1971 quotas. In 1972, some of the grains reserve had to be used to cope with the rapid increase in the industrial population. The total industrial and agricultural output value and the total industrial output value rose 12.2 per cent and 14.9 per cent respectively in 1971 over the previous year. However, they rose only by 1.4 per cent and 0.3 per cent in 1974. The impetuous efforts to get everything going in 1977 and 1978 made it necessary to start readjusting the national economy in 1979 and reduce the impractical growth rate.

(2) The development of heavy industry was emphasized so much as to neglect an overall balance and undermine the

objective proportions of the different branches of the national economy.

The undue emphasis on heavy industry led to the lopsidedness of the setup of production. Theoretically, it was more than once pointed out that the relations among agriculture, light industry and heavy industry must be handled correctly in socialist construction. However, in practice, both agriculture and light industry were ignored in favour of the development of heavy industry. The long implementation of the policy of "taking steel as the key link" also caused an imbalance among the different branches of heavy industry. When China's socialist industrialization started on a large scale in 1953, light industry was relatively developed and had much potential while heavy industry was underdeveloped. Therefore, at that time, it was necessary to follow the policy of giving priority to the development of heavy industry. However, this should not mean that heavy industry can advance independently of the development of agriculture and light industry and must grow faster than light industry at any time. Later, when undue emphasis was laid on the development of heavy industry without due consideration for the corresponding development of agriculture and light industry, in other words, on the high output quotas for a number of heavy industrial products, the overall balance was neglected to the detriment of reproduction.

(3) Undue emphasis was put on a high accumulation rate.

It is impossible for a big but economically underdeveloped country with a population of one billion, including 800 million peasants, to accumulate too much. Beginning in 1958, however, China maintained a very high rate of accumulation to seek a high growth rate, except in the years of economic readjustment. Between 1958 and 1978, the rate of accumulation was higher than 30 per cent for 13 years and exceeded 34 per cent in 1959, 1960, 1971 and 1978. Moreover, the accumulation increased faster than the national income during the same period (See Table 8).

Table 8 Comparisons Between the Growth Rates of National Income and Accumulation

| | Average annual national income | | National income per capita | | Average annual accumulation | |
|---------------------------|--------------------------------|-----------------|----------------------------|-----------------|-----------------------------|-----------------|
| | Sum (bil. yuan) | Growth rate (%) | Sum (yuan) | Growth rate (%) | Sum (bil. yuan) | Growth rate (%) |
| First 5-Year Plan period | 80.7 | | 133 | | 20 | |
| Second 5-Year Plan period | 109.6 | 35.8 | 165 | 24.1 | 34.6 | 73.0 |
| 1963—1965 | 118.4 | 8.0 | 170 | 3.0 | 27 | -22.0 |
| 1976—1978 | 269.3 | 18.3 | 284 | 9.2 | 88.9 | 21.9 |
| 1979—1980 | 349 | 29.6 | 360 | 26.8 | 117.8 | 32.5 |

Note: The figures in this table are based on the prices in the given periods, price changes not excluded.

The table shows that since the Second Five-Year Plan period, except in the years 1963-65 for economic readjustment, the accumulation grew faster than the national income. In some years, most of the increase in the national income was turned into accumulation. For example, in 1959 the national income increased less than the accumulation. It was precisely because such a high rate of accumulation was maintained to support the policy of undue emphasis on the development of heavy industry that the setup of production gradually became lopsided.

The big fluctuation in the rate of accumulation produced an even more serious impact on the setup of production. (a) The rapid changes in the rate of accumulation contradicted the existing setup of production and the product mix (manifested as the material composition of the national income).

When the rate of accumulation was raised drastically it would lead to the reduction of the returns from the investment and the results of production, because it was difficult to turn the accumulation funds into enough producer goods and additional consumer goods in a short time. When the rate of accumulation fell too sharply, a large quantity of the production equipment would lie idle, thus making it difficult to materialize the consumption fund. (b) The rapid changes in the rate of accumulation also contradicted the simple reproduction. When the rate of accumulation was too high, excessive means of production and labour force were drawn into the capital construction. As a result, the simple reproduction of the existing enterprises was harmed.

(4) There was the attempt to achieve very quick success in the construction of enterprises in remote regions away from the coastal areas.

In the macroeconomic distribution, construction of important enterprises in far off places, started in 1963, made the setup of production more lopsided.

In the past three decades, construction of enterprises in remote areas accounted for two-fifths of the total capital construction investment. It took up more than half of the total during the Third Five-Year Plan period. Modern industry in old China was concentrated in the big coastal cities and many enterprises were far from the areas which produced raw materials. To change the status quo gradually would help rationalize the setup of production. Gradual construction of enterprises in these remote areas was also considered a precaution against possible imperialist aggression. However, the result of the attempt to achieve success in a very short time was: more haste, less speed.

As the enterprises were required to be scattered over a vast area and built near mountains or in mountain caves, they needed a lot of money but could hardly produce things. Even if some did, the returns were negligible because of their high production costs.

Since independent industrial systems were sought after in construction of industrial enterprises in these areas, there was a development in the machine-building industry in disregard of the actual conditions. As a result, the rate of utilization of equipment in the industry was very low, lower than the already unsatisfactory rate for the industry throughout the country.

The sudden and big increase of heavy industrial enterprises in the remote areas — some moved from the coastal areas — disrupted old coordination systems while new systems were slow in being established.

And after large numbers of manufacturing enterprises were set up, support facilities were not available for them. There was a shortage of electrical power and transportation. The supply of consumer goods and services also posed a problem. All this made the setup of production more irrational.

(5) The initiative of peasants was discouraged under some radical practices in the course of setting up communes.

There were many causes for the underdevelopment of agriculture — the fundamental problem in China's setup of production — but an important cause was the "Left" policies pursued for a long period of time during and after the setting up of the communes, which poured cold water on the peasants' enthusiasm. The great achievements made in the agricultural co-operation movement cannot be denied. Still, there were defects in the movement. Both the speed of co-operation and the degree of socialization were too high. The agricultural productive forces were undermined, especially during the establishment of people's communes throughout China and in the subsequent acts of hurrying to make a premature advance to communism, setting high grain tax and purchase quotas and issuing arbitrary instructions in production. Then, under the slogan of "cutting off the tail of private ownership", both the private plots given to the peasants and the rural fairs were abolished and premature transition to a higher level of ownership was encouraged. This seriously

dampened the initiative of the peasants and hindered the development of agricultural production.

(6) There were serious defects in the economic management system.

Under the economic management system, no proper division of the decision-making power existed between the state and the enterprises, with the result that the power was over-centralized, denying the enterprises the share of the power they should have. In management, excessive emphasis was laid on administrative means to the extent that everything was put under rigid control. Administrative means, economic means and economic legislation were not properly combined. In regulation, there was no appropriate combination of guidance through planning and regulation through the market while the planned economy was upheld. In the organizational setup, enterprises were separated from each other because they were under different types of ownership and under the control of different administrative departments at various levels. Both over-all planning based on the needs of whole trades and co-ordination in production among specialized units were impossible. In the cities, the role of the collective economy was neglected while the individual economy was not properly developed. The defects in the economic management system were manifested in a concentrated form in the lack of market mechanism in social production and circulation. This is why the problems in the setup of production, rather than being discovered and solved in due time, were shielded to become even worse. Therefore, without a rational economic management system, it would be very difficult to establish a rational setup of production.

V. READJUSTMENT OF THE SETUP OF PRODUCTION

After the Third Plenary Session of the 11th Central Committee of the Communist Party of China held in December

1978, the setup of production was readjusted with initial success in the course of readjusting the national economy.

1. AGRICULTURE

It was decided at the session that the state quota for grain tax and purchase worked out between 1971 and 1975 would remain unchanged over a fairly long period of years and no above-quota purchases at normal prices would be permitted. To narrow the price differences between industrial and agricultural products, the session proposed that the State Council raise the normal prices for the quota purchases of grains by 20 per cent from the time when the summer crops were harvested in 1979 and raise the prices for the above-quota purchases by an additional 50 per cent. The purchase prices of cotton, oil-bearing crops, sugar-yielding crops, animal products, aquatic products and timber products would also be raised correspondingly. The purchase prices of 18 agricultural and sideline products including grains, cotton and vegetable oil were raised by an average of 22.1 per cent in 1979, and the purchase prices of eight agricultural and sideline products including cotton, tung oil and resin were raised properly in 1980. Moreover, it was also decided that agricultural taxes would be reduced or remitted for part of the communes and brigades.

Initial readjustments were made in the proportions of the different branches of agriculture in China, bringing about some change in the practice of focusing so much on grain production that diversified undertakings and overall development in the light of local conditions were neglected. While importance was still attached to grain production, the development of forestry, animal husbandry and industrial crops was accelerated.

(1) The proportion of the area sown in industrial crops increased continuously (See Table 9).

**Table 9 Areas Sown in Grains and Industrial Crops
and Their Proportions**
(In Million *mu*)

| Year | Grain area | % of total area | Industrial crops area | % of total area | Other crops area | % of total area |
|------|---------------|-----------------------|--------------------------|-----------------------|------------------------|-----------------------|
| 1978 | 1810 | 80.3 | 217 | 9.6 | 226 | 10.1 |
| 1979 | 1790 | 80.3 | 222 | 10.0 | 217 | 9.7 |
| 1980 | 1747 | 80.0 | 239 | 10.9 | 198 | 9.1 |

(2) The proportions of the output value of animal husbandry and sideline occupations rose. (The proportions of the output value of farm products, forestry, animal husbandry, sideline occupations and fisheries to the total output value of agriculture are seen in Table 10.)

After the proportions of the different branches of agriculture were readjusted in 1979, the proportion of farm output value dropped and the output value of animal husbandry and sideline occupations rose notably. Since forestry and fishery resources were seriously damaged, it will take some time to restore them.

(3) The output of major farm, animal and aquatic products rose by fair margins (See Table 11).

Agricultural production was restored and expanded to a certain extent as a result of implementing the policies adopted at the Third Plenary Session of the 11th C.P.C. Central Committee and the subsequent readjustments made to the setup of agriculture. In 1979, the total agricultural output value came to 158.4 billion yuan, 8.6 per cent more than in the previous year, and it rose to 162.7 billion yuan in 1980 (computed on the basis of the constant prices of 1970 in both years), 2.7 per cent over 1979. The output of farm products, animal husbandry and sideline occupations all increased sharply. In 1979, although the sown area was 20 million *mu* smaller than in

**Table 10 Relative Output Value of Farm Products, Forestry,
Animal Husbandry, Sideline Occupations
and Fisheries, 1977-1980**

| Year | Farm products (%) | Forestry (%) | Animal husbandry (%) | Sideline occupations (%) | Proportion of brigade-run industry to sideline occupation (%) | Fisheries (%) |
|------|-------------------------|-----------------|----------------------------|--------------------------------|--|------------------|
| 1977 | 67.5 | 3.2 | 13.7 | 14.1 | 11.0 | 1.5 |
| 1978 | 67.8 | 3.0 | 13.2 | 14.6 | 11.7 | 1.4 |
| 1979 | 66.9 | 2.8 | 14.0 | 15.1 | 12.5 | 1.2 |
| 1980 | 64.3 | 3.1 | 14.2 | 17.1 | 14.5 | 1.3 |

Table 11 Increases in Output of Major Farm, Animal and Aquatic Products over Previous Years (%)

| Year | Grain | Cotton | Three oil-bearing crops | Bast fibre crops | Sugar cane | Tobacco | Pigs | Sheep | Aquatic products |
|------|-------|--------|-------------------------|------------------|------------|---------|------|-------|------------------|
| 1977 | -1.2 | -0.3 | -1.7 | 17.8 | 6.7 | 15.9 | 1.6 | 2.0 | 4.9 |
| 1978 | 7.8 | 5.8 | 34.8 | 26.4 | 18.9 | 8.3 | 3.3 | 5.3 | -0.9 |
| 1979 | 9.0 | 1.8 | 23.5 | 0.1 | 1.9 | -23.5 | 6.1 | 7.8 | 7.5 |
| 1980 | -4.2 | 22.6 | 10.7 | 0.8 | 6.0 | -11.1 | -4.5 | 2.3 | 4.5 |

SETUP OF PRODUCTION

1978, the output of grain was 27.35 million tons more than in the previous year, or an increase of 9 per cent. This was rarely seen before in China's history of grain production. Compared with 1978, the state grain tax and purchase rose by 15 per cent, the peasants' food grain from the collective by 5.3 per cent, their feed grain by 1.3 per cent and the total national output of pork, mutton and beef by 24.1 per cent. Cotton production in 1979 was not much higher than in the previous year, but it reversed the trend of falling year by year between 1971 and 1977 (except for 1973). It rose by 22.6 per cent in 1980 to 54.13 million tons, smashing the previous record. The commercial departments purchased 58.68 billion yuan worth of agricultural and sideline products in 1979, 27.6 per cent more than in 1978, or 46.9 per cent more than in 1976. The figure rose again by 15.4 per cent to 67.7 billion yuan in 1980.

2. LIGHT INDUSTRY

A number of concrete measures were taken to ensure faster growth of the textile and other light industries. (a) Priority was given to the supply of fuel, power and raw materials for the textile and other light industries. (b) Imports of raw materials needed by these industries were properly increased. The 1979 quota for foreign exchanges to be used in this way was 320 million yuan above the 1978 figure, or a 17 per cent increase. (c) Great efforts were made to improve the quality of textile and light industrial products and increase their varieties. (d) Coordination between industry and commerce was strengthened so as to increase the commodity sales. The commercial and foreign trade departments were encouraged to help the producing enterprises to make proper arrangements for their production according to the state plan and market demand, and the enterprises themselves were allowed to market their products. (e) The heavy industrial depart-

ments and enterprises were urged to produce consumer goods if their technological processes did not need to be changed very much and there was a lively market.

To expand the production of the textile and other light industries, priority was given to the supply of raw materials and fuel, the adoption of measures for tapping their potential, upgrading their equipment and carrying out their technical transformation, the arrangement for new construction projects, the granting of bank loans, the use of foreign exchanges for importing new technologies and the transportation. Therefore, as conditions for production and construction in the textile and other light industries improved, their production rose. In 1979, light industry as a whole accounted for 11.9 per cent of the total industrial investment and the textile industry alone, 5.5 per cent. In either case, the figure was greater than during the First Five-Year Plan period. The proportion of the investment for the spinning, weaving, printing and dyeing industries to the total industrial investment rose to 6.4 per cent (the average annual percentage in the past two decades was 3.3 per cent). The situation continued to turn for the better in 1980. The state granted more short-term and medium-term loans to the textile industry for whose development the local governments also showed more enthusiasm. Agriculture also provided more raw materials for the industry.

As a number of measures were taken to accelerate the development of the textile and other light industries, their output value rose to 198 billion yuan in 1979, a 9.6 per cent increase over 1978. It went up by 18.4 per cent to 234.4 billion yuan in 1980. Instead of growing faster than light industry as it had done for many years before, heavy industry grew at a smaller rate; its growth rate was 7.7 per cent in 1979 and 1.4 per cent in 1980. The proportion of the textile and other light industries to the total industrial output value rose from 43.1 per cent in 1978 to 43.7 per cent in 1979 and further to 47.1 per cent in 1980 (The proportion was calculated on the basis of the di-

vision of the enterprises. If calculated in terms of the products, the output value of light industry would account for 47.4 per cent of the total industrial output value in 1980). Compared with the previous year, the output of major products grew considerably both in 1979 and 1980. For example, television sets rose 157.1 per cent in 1979 and 87.5 per cent in 1980, chemical fibre fabrics 14.4 per cent and 38 per cent, cotton cloth 11.1 per cent and 10.9 per cent, sugar 10.1 per cent and 2.8 per cent, bicycles 18.1 per cent and 29 per cent, sewing machines 20.8 per cent and 30.8 per cent, and wrist watches 26.4 per cent and 29.8 per cent. The total retail sales was 180 billion yuan in 1979, 15.5 per cent higher than the 1978 figure of 155.86 billion yuan. It rose by 18.9 per cent to 214 billion yuan in 1980, (the actual increase rate was 12.2 per cent after allowance was made for the rise in retail sale prices). This was the biggest increase recorded since 1959. The textile and other light industrial products registered a greater increase in sale than any other consumer goods and they constituted the largest share of the total sale. Textiles accounted for one-fifth of the total retail sales of consumer goods. Total textiles exports in 1979 were 26.3 per cent higher than in 1978, and in 1980 were 28.7 per cent higher than in 1979. The highest growth rate was reported from the textile and other light industrial products.

3. ENERGY AND TRANSPORTATION

To put an end to the state in which the under-developed energy and transport industries hindered a smooth social reproduction, practical measures were decided on after the Third Plenary Session of the 11th C.P.C. Central Committee to strengthen the coal, petroleum, transport and building materials industries.

In the energy industry, the principle was to lay equal stress on increasing production and practising economy, but

with more immediate stress on the second measure so as to ease as quickly as possible the shortage of fuel and power. Great efforts were made to strike a balance between digging and tunnelling in the coal industry; to strengthen geological prospecting and surveying in the petroleum industry with a view to increasing reserves and maintaining a proper ratio between extraction and reserves; and to improve the operation of the existing equipment in the power industry by providing necessary auxiliary facilities and speed up the building of new power stations. Moreover, all trades and enterprises were required to reduce energy consumption as much as possible. The concrete measures were: First, priority was given to supplying energy to those enterprises which turned out marketable and fine products, consumed less energy and raw materials and made large profits; second, the quota system was strictly enforced in the supply of fuel, power and raw materials; third, all the existing oil-fueled power generating units were gradually converted into coal-fueled ones; fourth, supply of electric power was centralized; fifth, the manufacturing industries were developed according to plan with control over the number of the units which consumed power, coal and oil; and sixth, efforts were stepped up to make an energy law. Owing to readjusting the ratios between digging and tunnelling in the coal industry and between extraction and reserves in the oil industry, the output increased at a slower pace or even dropped. But the power industry grew somewhat. The power output in 1979 was 9.9 per cent greater than in 1978, and in 1980 was 6.6 per cent greater than in the previous year.

In the transport industry, the relations among its different departments were readjusted to tap the potential and the technical revamping of the weak railway sections was sped up to raise transport capacity. Despite the cut in total capital construction investment, the investment in the transport industry increased in 1979 and 1980. New railway lines totalling 1,008 kilometres began operation in 1980. Moreover, efforts

were stepped up to upgrade the existing main railway lines. An eastern section of the Longhai Railway between Zhangzhou and Shangqiu was double-tracked. The Baoji-Tianshui section of the Longhai Railway, the Shijiazhuang-Yanguan section of the Shijiazhuang-Taiyuan Railway and the Xiangfan-Ankang section of the Xiangfan-Chongqing Railway were equipped to operate by electricity. New harbour facilities with a handling capacity of 8.13 million tons were added in 1980. The passive state of the transportation departments was changed somewhat. Shipping and air transport increased. In 1979, shipping business increased by 20.8 per cent, air freight by 27.2 per cent and passenger service by water and by air increased by 13.3 per cent and 25.3 per cent respectively. In 1980, the four figures rose by 10.7 per cent, 13.9 per cent, 13.2 per cent and 14.3 per cent respectively.

4. BUILDING MATERIALS INDUSTRY AND HOUSING CONSTRUCTION

For a long time, the state owed the people an improvement in their living standards. With the building materials industry long a weak link, the housing problem was acute. Only after the Third Plenary Session of the 11th C.P.C. Central Committee was the development of the building materials industry and the construction industry put on the agenda. In 1979, cement and plate glass production rose by 13.3 per cent and 16.3 per cent respectively over 1978, and in 1980 by 8.1 per cent and 18.9 per cent again over 1979. Housing, culture, public health and education and public utilities accounted for 33 per cent of the total capital investment in 1980 as against 27 per cent in 1979. Completed housing covered a total floor space of 62.56 million square metres in 1979, 66 per cent more than in 1978, and a total floor space of 82.3 million square metres in 1980 — a record since the founding of new China.

5. IRON AND STEEL INDUSTRY AND MACHINE-BUILDING INDUSTRY

The first thing done to change the imbalance among the major branches of the national economy was to reduce the proportion of investment in heavy industry which dropped from 50.9 per cent in 1978 to 45 per cent in 1979 and to 41.7 per cent in 1980. The investment in the metallurgical industry went down 25.3 per cent in 1979 and 6.5 per cent in 1980 as compared with the previous year. The metallurgical industry shifted its emphasis to improving the quality of its products, increasing new varieties and specifications and reducing energy consumption. A number of small and medium-sized enterprises which consumed more energy and raw materials and incurred losses were either shut down, had their operation suspended, were merged with other enterprises or had their production switched to other products. The same measures were applied in 1980 to many enterprises which were short of raw materials, fuel and means of transport and turned out products at unusually high costs. In 1979, more than 200 small iron and steel plants and 206 small blast furnaces with a total volume of 3,100 cubic metres stopped production. And so did 21 blast furnaces in medium-sized iron and steel plants with a total volume of 2,600 cubic metres in the same year. The year 1980 saw the initial results of the readjustment of the iron and steel industry. The output of merchant bars, wire steel, sheets and welded pipes was 26.7 per cent greater than in 1979 and the proportion of these products which had been in short supply to the total steel output rose from 48.4 per cent in 1979 to 56.2 per cent in 1980. In 1980, the proportion of heavy bars, thick and medium plates, seamless tubes and high-quality shape steel to the total steel output dropped by 13.7 per cent compared with 1979. They had been in excessive supply. Moreover, the energy consumption per ton of steel dropped from 2.51 tons of standard coal in 1978 to 2.28 tons in 1979.

To change the irrational structure of the machine-building industry, it was decided in 1979 that the industry would turn from serving mainly heavy industry to serving agriculture, light industry, urban construction and people's livelihood simultaneously; from serving mainly the construction of new plants to serving at the same time the tapping of the potential, the updating of equipment and the technical transformation of existing enterprises; from mere construction of machines to designing, construction, installation and trial operation of complete plants, supplying spare parts and replacements and training operators; from serving the domestic market to making an active entry into the international market; from small batch production to large-scale production on special lines; and from paying main attention to output and output value to attaching importance to quality, variety, delivery date and cost reduction and constant improvement of business management.

As a result of this decision the composition of the mechanical products changed. There was a drop in the output of some products which were in excessive supply. Compared with 1978, for example, machine tools and walking tractors went down by 23.5 per cent and 1.9 per cent respectively in 1979. They fell again by 4.3 per cent and 31.4 per cent respectively in 1980 compared with the year before. Some goods which were in short supply increased in production. For example, motor vehicles went up by 24.8 per cent in 1979 and 19.4 per cent in 1980, compared with the previous year. The products turned out for light industry by enterprises under the First Ministry of Machine-Building Industry increased from 23 varieties and a total output value of 650 million yuan in 1979 to 93 varieties and about 4 billion yuan in 1980. The mechanical and electronics products to meet consumers' needs at home increased and so did the exports of machines.

By following a correct policy concerning the iron and steel industry and the machine-building industry, China expanded her export capacities in the two industries. The proportion of

heavy industrial products and minerals to the total exports increased from 25.5 per cent in 1978 to 44 per cent in 1979 and further to 51.8 per cent in 1980.

6. SERVICES

Service trades directly catering to the needs of the people had long been insufficient. After a revaluation of their role, the trades started to be developed in 1979 and 1980 as a step towards a rational setup of production. Compared with 1978, the number of people engaged in the retail trades rose by 25.8 per cent in 1979, those in the catering trade by 33.5 per cent, and those in the services by 57.9 per cent. The number of people served by one person in the retail trade dropped from 214 to 173, in the catering trade from 918 to 696, and in the services from 1,711 to 1,098.

Initial progress was made in rationalizing the setup of production in the course of the economic readjustment. The ratio between accumulation and consumption also improved somewhat. The rate of accumulation dropped from 36.5 per cent in 1978 to 34.6 per cent in 1979 and to 32.6 per cent in 1980.

With the readjusting of the setup of production, economic performance improved. The costs of agricultural production dropped in 1979 in relation to the total agricultural income. The state farms which had long incurred losses reported profits that year. About 62 per cent of the increase in output value of the state industrial enterprises was achieved through higher labour productivity. The amount of taxes and profits provided by the state industrial enterprises per hundred yuan of fund was 24.2 yuan in 1978, 24.8 yuan in 1979, and 24.8 yuan in 1980. The turnover of the circulating funds was speeded up. The amount of circulating funds used by the state industrial enterprises per hundred yuan worth of output value was 32 yuan in 1978, 31 yuan in 1979 and 30 yuan in 1980. The fixed assets made available in 1979 accounted for 83.7 per cent of

the total capital construction investment as against 74.3 per cent in 1978.

In summary, with a number of measures taken to readjust the setup of production after the Third Plenary Session of the 11th Central Committee of the Communist Party of China, the lopsided setup to a certain degree was corrected. However, the progress was still far from what was needed for the balanced development of agriculture, light industry and heavy industry and sound economic growth. There were still serious difficulties in the national economy.

VI. THE OLD CONTRADICTIONS AND NEW PROBLEMS IN THE READJUSTMENT OF THE SETUP OF PRODUCTION

The economic readjustment started in 1979 brought an initial improvement in the setup of production. However, some old contradictions remained unsolved and some new problems emerged.

1. The old problem still remained of overextended capital construction work by the state-owned units.

In 1978, the capital construction investment totalled 47.955 billion yuan. In 1979, it was decided to reduce the capital construction programme, but the actual investment went up by 4.2 per cent to 49.988 billion yuan. The total capital construction investment under the 1980 plan was no more than 50 billion yuan (37.35 billion yuan by the state). However, the actual total investment in 1980 was 53.9 billion yuan, 7.8 per cent more than in 1979. The further extension of the capital construction programme was caused primarily by the import of more projects from abroad. As more plants were imported and most of the imported plants were big ones or super-big ones, the average total investment for each plant rose from 166 million yuan in 1978 to 261 million yuan in 1980. The projects with equipment made in China accounted for a small-

er share of the total capital construction investments than before while the imported plants' share rose from 6.8 per cent in 1979 to 18.6 per cent in 1980. The completion of all the 1,125 big and medium-sized projects started or under construction in 1980 would require an additional investment of 159.2 billion yuan.

The overextended programme was also caused by the construction of projects by the local governments or enterprises in disregard of objective reality. In 1979, the local projects cost 10.5 billion yuan. In the continued economic readjustment of 1980, although the investment within the state budget was reduced to 28.1 billion yuan, 29 per cent less than in the previous year, the funds raised by the local governments and enterprises for capital construction rose to 16.4 billion yuan, 56 per cent more than in 1979 or twice the controlled quota of 8 billion yuan. A great part of the local funds had been converted under various pretexts from the funds for tapping the potential of the existing enterprises, updating their equipment or carrying out their technical transformation as well as funds for the adoption of new technical measures. Some of these funds reached 20 million yuan each, more than the investment needed for a new medium-sized project. Capital construction investment in the form of bank loans also rose to 4.1 billion yuan in 1980, more than ten times the 1979 figure. So the total investment did not drop in 1980 but rose. Moreover, the fixed assets made available in 1980 accounted for 79.1 per cent of the total investment in capital construction that year, 4.6 per cent lower than in 1979. Obviously, the scope of capital construction was still too big for China's national economic power. It did not help increase the returns from the investment.

2. Little progress made in the vanguard departments of the national economy.

Limited by financial resources, the investment in the energy and transport industries was not much increased (See Table 12).

Table 12 Proportions of Investments in the Energy and Transport Industries to the Total Investment in Capital Construction

| Year | Total investment | Total industrial investment | Energy Industry | | | | Communications | | |
|---------|------------------|-----------------------------|-----------------|------|-----|-------|----------------|----------|-------------------|
| | | | Total | Coal | Oil | Power | Total | Railways | Highways Shipping |
| 1953-57 | 100 | 45.5 | 13 | 5.4 | 2.2 | 5.4 | 16.4 | 10.8 | 4.8 |
| 1963-65 | 100 | 52.1 | 15.8 | 6.2 | 4.1 | 5.5 | 13.3 | 8.4 | 3.9 |
| 1971-75 | 100 | 58.2 | 18.4 | 5.4 | 5.3 | 7.7 | 18.9 | 10.3 | 6.3 |
| 1977 | 100 | 59.6 | 21.4 | 6.2 | 5.7 | 9.5 | 13.8 | 5.9 | 5.8 |
| 1978 | 100 | 57.0 | 23.7 | 6.6 | 6.5 | 10.6 | 14.1 | 7.0 | 5.2 |
| 1979 | 100 | 51.4 | 22 | 6.4 | 5.4 | 10.2 | 12.8 | 6.2 | 5.8 |

Although investment in the energy industry in the years 1977-79 reached a higher proportion than before, a host of problems had been piling up, such as the imbalance between oil extraction and reserves, between coal digging and tunneling, and the shortage of energy reserves. Gradually, it became difficult to keep energy production from declining. Coal and crude oil, though increasing in output value by 2.8 per cent and 2 per cent respectively in 1979 over the previous year, were 2.4 per cent and 0.2 per cent lower in 1980 than in the year before. The output of natural gas also dropped by 1.7 per cent. The energy problem remained acute.

The proportion of investment in the transport industry in 1979 to the total capital construction investment dropped by 1.3 per cent compared with 1978, and the investment in railways fell by 230 million yuan. The problem in the industry remained very serious. In 1979, though the volume of goods carried by rail increased 1.9 per cent over 1978, the freight carried by road dropped by 4.3 per cent and shipping volume by 0.1 per cent. In 1980, the railway freight and highway freight dropped by 0.8 per cent and 6.8 per cent respectively. The major coastal harbours, though handling 2.2 per cent more goods than in 1979, failed to satisfy the needs.

3. Slow progress made in readjusting the iron and steel industry and the machine-building industry.

With the economic readjustment started in 1979, steel production was restricted under the state plan to reduce the overstocking of steel products and ease the energy shortage so that the energy saved might be used in agriculture, and the transport industry and particularly in light industry. However, the actual steel output in 1979 exceeded the annual quota by 3 million tons. The 1980 quota was again exceeded by 4 million tons. This was caused mainly by a change in the composition of products. There was a rapid rise in output of steel products in short supply which stimulated the demand for steel. However, some of the steel products soon became unmarketable and overstocked. In 1979, high-quality steel products and

silicon steel sheets were in short supply, but in 1980 they became unmarketable because of changes in production arrangements in the machine-building industry which was being readjusted. The output of merchant bars, wire steel, sheets and welded pipes — all in short supply then — totalled 7.14 million tons in 1977, but it rose more than 100 per cent to reach 15.54 million tons in 1980.

Another factor for the extra-quota production of steel in 1979 and 1980 was that a large share of the steel products which were increasing rapidly to meet market demand were turned out by the small and medium-sized iron and steel plants run by the local governments. Major enterprises produced 6.34 million tons of merchant bars, wire steel, sheets and welded pipes in 1979 and 7.3 million tons in 1980 while the local enterprises turned out 5.75 million tons in 1979 and 8.24 million tons in 1980. The products from the local enterprises became good sellers, enabling them to increase their steel production.

The readjustment of the machine-building industry was complicated and therefore the progress was slow. The utilization rate of equipment in many enterprises was 50-60 per cent.

4. The rash development of light industry.

In the course of the economic readjustment, the different localities and departments showed rising enthusiasm for expanding light industry and produced large quantities of consumer goods to meet the popular demand. However, serious problems emerged in the development of light industry for lack of overall planning and balance. The most serious of them was the development of small light industrial enterprises without due attention to objective reality. The features of the rapid expansion were:

(1) A high rate of growth. Beginning in 1979, small enterprises mainly run by communes and their subdivisions mushroomed. According to a survey of the industrial enterprises in the first half of 1980 made by Heilongjiang Province, the number of industrial enterprises covered by the provincial

statistics (not including the Daqing Oilfield and some other major enterprises) was 28,935 by the end of 1979, some 15,414 more than before, showing a 114 per cent increase. Most of the new enterprises were built in the few years before the survey. State enterprises increased in number by 15.4 per cent, collective enterprises in both urban and rural areas by 18.7 per cent and enterprises belonging to communes and subdivisions by 291.4 per cent. The Central Administration for Industry and Commerce confirmed in a registration of enterprises in 1980 that there was a rapid increase in small enterprises all over the country.

(2) Construction of enterprises that competed with big plants for raw materials produced goods with no consumer demand.

Small tobacco factories, printing houses, pharmaceutical plants and other enterprises producing goods already in excessive supply continued to increase sharply in number in 1979 and the first half of 1980. Their competition with big plants for raw materials was developing.

The production capabilities of the cotton industry had been greater than the supply of cotton for many years. The cotton purchased at home was enough only to meet two-thirds of the capacity of the big and medium-sized cotton mills. The rest had to be imported. Between 1979 and 1980, however, some counties and communes in the cotton producing provinces of Henan, Hubei and Jiangsu built small cotton mills, each with a capacity of 30,000 spindles or smaller. Henan alone built more than 100. In 1979, some 540,000 spindles were added in China, but only 21.3 per cent were installed in big and medium-sized mills and the rest in small mills. The small mills consumed more raw cotton but turned out products of inferior quality at higher costs, while the big mills operated under capacity owing to the shortage of raw materials.

According to statistics from 17 provinces, municipalities and autonomous regions, 12,000 new small wineries, breweries and distilleries had been built by April 1980. The figure was

about 9 times the total number of large ones run at the county or above levels.

A large number of small tobacco factories were built in the tobacco producing areas. As a result, major factories in Shanghai and Tianjin operated under capacity and the output of Grade A and Grade B cigarettes dropped sharply.

There were many causes for the hasty development of these enterprises. In most cases the call for the expansion of light industry was not accompanied by policies and overall planning. And then, it was easy to build small enterprises which required small investments and produced quick results. They could make profits because of irrational prices. More small enterprises appeared as communes and their subdivisions were encouraged by tax reduction and remittance to run their own enterprises. This had the effect of promoting the backward enterprises.

5. Big financial deficits.

China had a financial deficit of 17 billion yuan in 1979 and another deficit of 12.7 billion yuan in 1980.

The main reason for the big deficits was that while expenditures increased, capital construction investment was not cut back correspondingly in due time. However, the deeper cause was the irrational setup of production. Quite a number of enterprises operated under capacity owing to the great shortage of raw materials and electric power, while the energy industry and transport facilities fell behind. The result was poor economic performances. This made it impossible to increase the state revenues and find a fundamental solution to the problem of financial deficits.

These old contradictions and new problems arising in the course of the readjustment of the setup of production showed that the task of rationalizing the lopsided setup would not be completed overnight. To settle the complicated contradictions, it was necessary to handle properly the following relationships:

(1) The relationship between readjustment of the setup of production and readjustment of the accumulation rate.

In making the overall readjustment of the setup of production and the partial readjustment of some branches of the economy, some changes, involving only factory buildings, raw materials and labour force, would not require new investments, but some would. For example, new investments would be needed to expand the energy industry and transport industry so that the two industries which were suffering from insufficient investments might meet the needs of economic development; to develop light industry; to provide more housing for urban residents; to carry out internal readjustments in the industrial enterprises whose products were in excessive supply; to convert oil-fueled boilers into coal-fueled ones which would require billions of yuan; and to achieve a balance between the mining and rolling capacity on the one hand and the steel-making capacity on the other. This called for more accumulation to provide most of the funds, no matter how they were raised. However, there was a pressing demand for reducing the rate of accumulation in the country which had been too high for many years. Therefore, the relationship between readjustment of the setup of production and readjustment of the accumulation rate had to be handled well. While lowering the rate of accumulation step by step, efforts should be made to tap the potential of the different branches of the economy and change the lopsided setup of production.

(2) The relationship between readjustment of the setup of production and reorganization of production.

In the course of the economic readjustment, it was absolutely necessary to shut down a large number of enterprises, suspend their operation, amalgamate them with other enterprises or switch them over to the manufacture of other products because these enterprises were set up irrationally from the economic point of view and could neither find markets and raw materials nor guarantee good quality for their products. However, there would be a lot of difficulties in switching enterprises over to other lines of production, such as the retraining of workers, distribution of resources, supply of

raw materials, scrapping, revamping or purchase of equipment and designing and sale of new products. All these problems had to be solved properly.

(3) The relationship between readjustment of the setup of production and reform of the economic systems.

The readjustment of the national economy, started after the Third Plenary Session of the 11th C.P.C. Central Committee, was accompanied by some experiments in reforming the economic systems. But when a fundamental solution was yet to be found to the disproportionate development of the national economy and there was an imbalance between state revenues and expenditures, between credit receipts and payments, between supply and demand in market and between foreign exchange earnings and payments, the most pressing immediate task was to readjust the economy. The first thing was to reduce the scope of capital construction, cut back the non-productive expenditures, and check the excessive issuance of bonuses and subsidies. Then it was necessary to readjust the setup of production, reorganize the industrial enterprises, control the development of the metallurgical, machine-building and other heavy industries and speed up the development of the textile and other light industries and agriculture; to readjust the channels of circulation; and to keep the prices basically stable. In carrying out the policy of readjusting, restructuring, consolidating and improving the economy, therefore, the immediate task was to concentrate on readjustment. Readjustment was the key to the whole economic work. Restructuring of the economic systems had to be subordinate to readjustment.

Being subordinate to readjustment meant that reforms that helped economic readjustment had to be continued and those that hindered readjustment postponed. It did not mean that all reforms should be halted. It was true that restructuring and readjustment were contradictory to each other in some aspects. The all-around extension of the decision-making power to the enterprises, the overall reform of the price system and the

reform of the labour and wage system were appropriate and necessary from a long-term point of view. However, the reforms would require financial and material resources. When there were still big financial deficits and the economic structure was unbalanced, the material conditions did not exist for these reforms to be carried out in a thorough way. Therefore, these reforms should be slowed down or the focus of work should be changed in introducing reforms.

Readjustment and restructuring of the economy supplemented and promoted each other. Both were intended to create conditions for improving economic performance by rationalizing the economic structure, enterprise organization and management system. Without being coupled by necessary reforms, some of the readjustments could not reach the expected goals. Some reforms which did not need more financial and material support from the state could produce great useful results and thus open the road for progress in the readjustment. In other words, during the period of readjustment, positive efforts should be made to promote the reforms that help readjustment.

A desirable setup of production cannot be established once and for all. It needs constant readjustments as the objective economic conditions change. However, there is a marked distinction both in concept and content between such constant readjustments in economic work and the all-encompassing readjustment during the period of economic readjustment. The socialist system in the country makes it possible to consciously and constantly readjust the setup of production to promote the healthy development of the socialist economy.

Chapter IV
AGRICULTURE

by Zhan Wu and
Liu Wenpu

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I. CHINESE AGRICULTURE BEFORE 1976

Thanks to the changes in the relations of production and the improvement in technology, Chinese agriculture has undergone great transformations during the past 30 years. In the three years between 1949, when the People's Republic was founded, and 1952, land reform was carried out throughout the country, thus ending the feudal land-owning system. Individual peasants were then led to the socialist road through a variety of transitional forms such as mutual-aid teams, elementary and advanced co-operatives. By 1956, the socialist transformation of agriculture had been completed in the main. In 1958, the system of people's communes that combined political power with economic development was established. From then on, collective ownership became the mainstay of agricultural production, and the peasant masses succeeded in freeing themselves from the system of exploitation.

From 1952 to 1976, the state invested a total sum of 130 billion yuan in agriculture, of which 68.4 billion yuan were appropriated for capital construction. The funds thus appropriated were used in the following manner:

(1) Farmland capital construction and water conservancy projects were undertaken on a large scale. A total of 260 million *mu* (1 *mu* equals one-fifteenth of a hectare) of low-lying fields that were prone to waterlogging, plus 60 million *mu* of saline and alkaline land, underwent improvement. More than 84,000 reservoirs, big and small, were built with a combined capacity of storing 400 billion cubic metres. Farmland under irrigation in the country increased from 300 million *mu* (18.5 per cent of the total cultivated land) in 1952 to 670 million *mu* (45.3 per cent of the total cultivated land) in 1976. The

state repaired and erected dykes and embankments with a total length of 165,000 kilometres along the Changjiang, Huanghe and other major rivers, dredged and opened more than 100 large river channels for the purpose of draining excessive water and preventing floods. These projects brought the ordinary floods of the principal rivers under preliminary control. Waterlogging and drought in the plain regions were reduced as a result.

(2) Initial success was achieved in equipping our agriculture with modern technology, as there was a big increase in farm machinery, chemical fertilizer and electricity.

Between 1952 and 1976, the tractor-ploughed acreage rose from 2.04 million *mu* to 523.69 million *mu*, and the power-irrigated acreage from about 4.76 million *mu* to 363.42 million *mu*.

There was a rapid increase in the amount of chemical fertilizer and insecticides applied. In 1952, a total of 78,000 tons of chemical fertilizer (with 100 per cent effectiveness) were used in the country, averaging 0.5 kilogrammes per *mu* of cultivated land. The figure for 1976 was 5.83 million tons, averaging 3.9 kilogrammes per *mu*.

(3) Initial success was attained in establishing a network of scientific research and technical propagation centres.

The Chinese Academy of Agricultural Sciences was formed in 1957, followed by the founding of other agricultural research institutes at the provincial and prefectural levels. Beginning in 1953, centres for the popularization of agricultural technology, for breeding seed strains and for plant protection were generally established in the provinces, municipalities and autonomous regions, some of which had also soil and fertilizer centres. After the establishment of the people's communes, scientific and technical organizations in agriculture were gradually formed at the four levels — county, commune, production brigade and production team. Veterinary stations could be also found in every province, prefecture, county and commune.

China had a little more than 20 agricultural or forestry colleges in the early post-Liberation days. The number increased to 43 in 1976. Secondary agricultural and forestry schools numbered 277 in 1976, as compared to a handful in the early period after Liberation. Agricultural and forestry colleges graduated 242,000 students in the years between 1949 and 1976, 19 times more than the number of graduates before Liberation. Secondary agricultural and forestry schools' graduates totalled 486,000 during the same period.

China's agricultural production also increased. If the total output value of agriculture in 1949 was 100, that for 1976 would be 307.6, representing an annual increase of 4.2 per cent. Increases in major farm products have made it possible to find a basic solution to the problem of food and clothing for China's one billion people.

However, China's agriculture advanced along a zigzag path.

There were two periods during which agriculture grew at a fast rate.

The first fast growth occurred during the First Five-Year Plan period (1953-1957) thanks to the land reform and the mutual-aid and co-operative movement and the realistic rural policies followed at that time, although the material and technical conditions and the ability to combat natural calamities were then inadequate. Total agricultural output value rose from 48.4 billion yuan in 1952 to 60.4 billion yuan in 1957 (based on constant prices in 1952), an increase of 24.8 per cent. Grain, cotton, oil-bearing crops and sugar-yielding crops went up 19 per cent, 25.8 per cent, 0.1 per cent and 56.6 per cent respectively. Average annual increase was 3.5 per cent for grain, 4.7 per cent for cotton, 9.4 per cent for sugar-yielding crops, 3.3 per cent for meat, and 13.3 per cent for aquatic products. In the eight years between 1949 and 1957, grain increased annually by an average of ten million tons; cotton by 150,000 tons; oil-bearing crops by 200,000 tons; and sugar-yielding crops by one million tons. There was a marked im-

provement in the living standards of the peasants. Their average consumption level in 1957 was 79 yuan (based on comparable prices), which was 17.1 per cent more than in 1952 and represented an annual increase of 3.2 per cent.

The years from 1962 to 1965 were a period of rehabilitation after the three difficult years of 1959, 1960 and 1961. In this period, rural economic policies were readjusted to effect a rapid recovery and expansion of agriculture, thus putting an end to the continuous drop in farm production during the previous years. By 1965, agricultural production had by and large regained the 1957 level.

China's agriculture suffered two major setbacks.

The first setback occurred in 1959-61 when production declined year after year. Total agricultural output value was 55 billion yuan for 1958, 47.5 billion for 1959, 41.5 billion for 1960, and 40.5 billion for 1961 (all based on 1957 constant prices), plummeting by 26.4 per cent in three years. For the same period, the output of grain dropped from 200 million tons to 147.5 million tons, or by 26 per cent. Cotton and oil-bearing crops declined by 60 per cent and 61 per cent respectively for the same period. Meat dropped by 51 per cent in 1962 from the 1957 level. In 1961, the output of grain and sugar-yielding crops and the number of pigs in stock all sank to the 1951 level; cotton output declined to the 1950 level; and the output of oil-bearing crops was even below the level of 1949.

The other setback took place during the "cultural revolution" (1966-1976) when agricultural production remained stagnant. Total agricultural output value in 1976 increased by 66 per cent over 1957, representing an annual rise of 2.7 per cent. The growth rates for major farm products in the same period were: 46.8 per cent for grain, or an annual increase of 2 per cent; 25 per cent for cotton, or an annual increase of 1.2 per cent; 95.8 per cent for meat, or an annual increase of 3.6 per cent; 43.6 per cent for aquatic products, or an annual increase of 1.9 per cent. The growth rates were

much slower than those during the First Five-Year Plan period (1953-57). What was worse, the output of oil-bearing crops dropped by 5 per cent during this period, representing an annual decline of 0.2 per cent.

Because of a rapid population growth, there was a slight increase or even a decrease in per capita consumption of farm products. The grain consumption per capita increased from 306 kilogrammes in 1957 to 309 kilogrammes in 1976, a growth of merely 3 kilogrammes in 20 years, averaging 0.15 kilogrammes a year. Per capita consumption of cotton declined from 2.55 kilogrammes to 2.2 kilogrammes; that of oil-bearing crops dropped from 6.6 kilogrammes to 4.35 kilogrammes, a decrease of 34 per cent; that of meat rose from 6.25 kilogrammes to 8.45 kilogrammes; that of aquatic products remained basically the same. As a result, the peasants' living standards underwent only a sluggish improvement. Their average consumption level in 1976 was 125 yuan, 23 per cent more than in 1957, representing an annual gain of 1.1 per cent, which was two-thirds less than the growth rate for the First Five-Year Plan period.

As a matter of fact, China's agriculture advanced under normal conditions only in a dozen out of the past 30 years. The unsteadiness in agricultural production, marked by several ups and downs, resulted mainly from the "Left" errors. This is the principal lesson we should learn.

The "Left" errors were manifested mainly in the following:

(1) An impetuous effort was made to gain quick results in guiding agricultural production. "High targets" and "arbitrary guidelines" were imposed for many years in disregard of China's actual conditions and geographical differences. Forests and grasslands were destroyed in a number of areas to grow crops and lakes were dammed to create more farmland, resulting in more natural disasters, greater areas of desertification and serious water and soil erosion. In addition, harvesting aquatic products was done in an improper way or

stressed at the expense of breeding, trees were felled without reafforestation, grasslands were overgrazed, and farmland was overused without proper attention to the maintenance of its fertility. In short, predatory practices existed in varying degrees in farming, forestry, animal husbandry and fisheries. As a result, all our resources — land, water, forest and mountain — dwindled badly. Our ecological environment also deteriorated.

The destruction of productive forces resulting from violation of economic laws should serve as an even greater lesson. First, there was the violation of the law that the relations of production must correspond to the productive forces. As a result, collectivization was pushed forward blindly in total disregard of the level of China's agricultural productive forces; production units were organized on a grand scale and a high degree of public ownership was put into practice. Before the advanced co-operatives were even consolidated, people's communes were introduced. Moreover, there were attempts to make the commune the basic accounting unit at the very beginning. Second, there was the violation of the law of "to each according to his work" in distribution. Such practices as "everybody sharing food from the same big pot" and "egalitarianism" found their expression mainly in the system of providing for the basic needs of life — blindly extending the scope of collective consumption and instituting the so-called distribution in kind according to need. All this seriously dampened the peasants' enthusiasm for work. Third, there was the failure to implement the principle of equal-value exchanges between the state and the collective and among the collectives themselves. State agencies and communes often used the manpower and land of production teams without compensation and transferred their funds and materials at will.

When different production units jointly undertook a farmland improvement project, they had to contribute the same amounts of funds and materials, regardless of which

units would benefit more or would not benefit at all. In the course of change from ownership by production teams to ownership by production brigades or communes, a hard and fast rule was imposed to even out the differences in income and property among rich and poor teams or brigades. While often increasing the prices of manufactured goods they sold, the commercial agencies wilfully bought agricultural and sideline goods at prices lower than they were worth.

(2) There was the failure to handle correctly the relationship between politics and economy. It was, of course, utterly necessary, shortly after Liberation, to carry out not only land reform but also the socialist transformation of the small-peasant economy. Once the socialist system was established, however, we failed to seize the opportunity to shift the focus of our rural work onto economic development and technical transformation, which, if carried out, would have boosted production and improved the peasants' livelihood. The failure to understand correctly the rural conditions led to the over-emphasis on class struggle and political movements, an over-emphasis that resulted in political instability for a long time in the rural areas.

Neglect of rural economic work inevitably led to contempt for agricultural science and technology, agricultural personnel and agricultural education. Though our agricultural research and education improved upon what it used to be before Liberation, it was still very backward and fell far short of the actual need. Little attention was paid to agricultural scientists and technicians, whose living and working conditions remained poor and whose expertise was not brought into play.

These "Left" errors grew to preposterous proportions during the ten-year period of "cultural revolution," and they did longer and more serious damage to agricultural production.

As for ownership relations, the "gang of four" advocated the advance of production teams, brigades or even communes to a higher form of ownership, even though the advance was not warranted by actual economic conditions. They even

resorted to administrative measures to force the change of the ownership relations and the merging of production brigades or teams. In the process, the brigades or teams which had become rich were evened up with those which had remained poor. This seriously dampened the enthusiasm of the peasant masses. Not wishing to surrender what they had, peasants slaughtered pigs, felled trees and shared out in private the harvests they had concealed, causing great damage to agricultural production. The "gang of four" stated that "the principle of to each according to his work is the root of capitalist restoration" and must be therefore restricted. They characterized the differences in income among commune members as class distinctions although they were understandable, resulting from distribution according to work. The "gang" criticized getting rich through work as capitalist. They condemned diversified operations as "putting money in command" and "taking the capitalist road". They restricted or banned proper household sideline occupations, as well as village fairs, as tails of private ownership or capitalism.

Agricultural education and research, as well as agricultural personnel, suffered unprecedentedly during the ten years of "cultural revolution". Large numbers of research institutions were dispersed or disbanded, and scientists were transferred to do manual labour in the countryside or were forced to do jobs unrelated to their specializations. They were subjected to all sorts of political persecution. For about a dozen years, agricultural colleges were unable to function properly, because there were frequent orders to move, merge or disperse. Besides, there was a serious shortage of teaching staff.

Now we must talk about the so-called "learning from Dazhai in agriculture". Before the "cultural revolution", the Dazhai Production Brigade in Xiyang County, Shanxi Province, was indeed a good model in agriculture, which excelled in hard work and self-reliance. In his report on the work of the government delivered at the First Session of the Third

National People's Congress in 1964, Zhou Enlai summed up Dazhai's experiences as having the following characteristics: the principle of putting politics and ideological work in command; the spirit of self-reliance and hard struggle; the communist style of work that was marked by love for the country and the collective. Promoted across the country, these basic experiences of Dazhai did play a positive role. But in its later development, especially during the "cultural revolution", Dazhai was gradually transformed into its opposite, becoming finally a model of "Left" errors.

Dazhai's (as well as Xiyang's) errors were manifested mainly in the following:

(a) Fabricating "class struggle", mounting indiscriminate criticism and struggle against the masses and the cadres, and wantonly picking out so-called "capitalist-roaders" and "scoundrels who have sneaked into the revolutionary ranks."

(b) Prematurely changing production relations, imposing the practice of using production brigade as the basic accounting unit for the whole Xiyang County, and trying out at the Dazhai Commune the system of commune ownership.

(c) "Cutting off the tail of capitalism" and "blocking the road to capitalism". In Xiyang County, the private plots and domestic sideline occupations of the commune members were all eliminated as "tails of capitalism". Commune- and brigade-run industries and sideline occupations were restricted and diversified undertakings strangled, all under the pretext of repudiating the twin enemies: "capitalism within the collective economy" and "putting money above everything else". Village fairs were banned, commune members were not allowed to exchange what they had for what they wanted, and the economic exchange between town and country was stopped.

(d) Trumpeting egalitarianism and undermining the principle of "to each according to his work". In labour management, it was forbidden to give work points on the basis of work quotas and pay commune members accordingly. Instead,

a system of giving fixed work points and distributing in kind according to need was instituted.

(e) Undermining the principle of exchange of equal values and exploiting peasants. In undertaking large-scale farmland improvement or water conservancy projects, the manpower, funds and materials of production units were used without compensation.

These bad practices in Xiyang and Dazhai were promoted across the country for a long time. Whoever failed to copy them was accused of having followed the capitalist road and clung to revisionism and was even penalized. All this caused untold damage to China's agriculture.

II. READJUSTMENT OF CHINA'S AGRICULTURAL POLICIES AND DEVELOPMENT IN 1977-80

After 1977 and especially after the Third Plenary Session of the 11th Central Committee of the Communist Party of China held in December 1978, China's agriculture entered a new period of growth. Intense and extensive criticism of the "Left" errors resulted in the emancipation of people's minds and an objective evaluation of the positive and negative experiences in our agricultural development in the past 30 years, thus making it possible to carry out major readjustments in agricultural policies. In concrete policy measures, the readjustment, begun in 1979, has certain similarities with the readjustment carried out in the early 1960s, but there are also significant differences. An important difference is that, although the policy measures taken in 1960 did yield positive results, people were not aware that the problems in China's agriculture resulted chiefly from the "Left" errors, and the mistakes were, therefore, later repeated under new circumstances. In the latest readjustment, an effective solution has been found because of a clearer understanding of the problems.

The starting point of the readjustment was to bring into full play the enthusiasm of the 800 million Chinese peasants for socialism, thus laying a solid foundation for the modernization of agriculture. A series of important policies and measures were adopted along this line. They included: the respecting of the ownership and decision-making power of the collective economic units; the adopting of various forms of responsibility system in production and the implementation of the principle of "to each according to his work"; the correct and comprehensive enforcement of a general policy for agricultural production; the active and steady promotion of enterprises that embraced agriculture, industry and commerce; the rendering of assistance for expanding commune members' household sideline occupations and village fairs; and the providing of more aid by the state for agriculture in general.

1. RESPECTING OF OWNERSHIP BY THE COLLECTIVE ECONOMIC UNITS, REFORM IN THE AGRICULTURAL MANAGEMENT SYSTEM

A common but erroneous practice, whereby state agencies, without providing compensation, could freely transfer materials, fund and labour power of communes, production brigades and production teams, had been in existence for a long time. The practice entailed grave consequences for the development of agriculture. A survey of the Hongtang Commune in Xiangxiang County, Hunan, shows that in 1977, 49 different units at the county, district, commune and production brigade levels imposed various demands on production teams whose members had to shoulder as many as 72 items of unreasonable burdens. Altogether, 650,000 workdays were lost, accounting for 27.5 per cent of the year's total workdays and valued at 200,000 yuan. Besides, the transferred funds and materials were worth 150,000 yuan and the various non-productive expenditures amounted to 67,000 yuan more. The

three items totalled 410,000 yuan, averaging 26 yuan per commune member, or 42.6 per cent of their income derived from the collective economy. Apart from encroaching upon the production team's ownership, the state and the commune imposed too rigid a control on its management, detailing a multitude of mandatory quotas for state purchases, output, planting acreage and the number of domestic animals, as well as concrete measures to boost production and determine the kinds of crops to grow. The regulation was so strict that production teams were not even allowed to grow crops suited to local conditions. Certain superiors went so far as to order the peasants to plow under crops that had already been sown of the peasants' own accord and plant other crops instead. These practices were a grave encroachment upon the peasants' democratic rights.

To respect the ownership and decision-making power by the collective economic units the Constitution of the People's Republic of China, adopted at the First Session of the Fifth National People's Congress in 1978, explicitly stipulates that the state ensures the integrity and development of the socialist collective sector of the economy owned by the masses of working people and that socialist collective property is inviolable. It is stated in clear-cut terms in the Decisions of the Central Committee of the Communist Party of China on Some Questions Concerning the Acceleration of Agricultural Development, adopted at the Fourth Plenary Session of the 11th Central Committee of the Party in September 1979, that "No unit or individual is permitted to commandeer or use the manpower, land, draught animals, machinery, funds, products and material of any production team. When state agencies set up enterprises or establishments in the rural areas (other than those established by the peasants of their own will), they must never add any burdens to the collectives or commune members except those otherwise stipulated in state laws and decrees. . . . No unit is allowed to transfer manpower from the communes, production brigades or production teams outside the state

plans; contracts must be signed for the transfer of contract labourers and casual labourers within state plans, and reasonable remuneration must be set down." As for the decision-making power of production teams the Decisions say: "While adhering to the socialist orientation, carrying out state policies, laws and decrees, and accepting the guidance of state plans, the basic accounting units of the people's communes all have the right to grow crops suited to local conditions, the right to decide on the measures for increasing production, the right to determine their methods of management and operation, the right to distribute their products and cash, and the right to resist the arbitrary command of any superior organization or leader."

In line with these stipulations, various measures were adopted in different parts of the country to change the irrational or bad practice of the past.

(1) There was the reduction of not only the size of the production units but also the number of the production brigades which served as the basic accounting unit. During the "cultural revolution", regardless of actual conditions or opposition by the masses, production teams or brigades were merged to enlarge the size of the production units in some parts of the country, or the basic accounting unit was arbitrarily "elevated" from the production team to the brigade. After 1977, peasants in a number of areas, to facilitate production, readjusted the size of the production units on their own initiative by reinstituting the former economic organizations or making the basic accounting unit smaller. In 1976, 4.709 million production teams, 47,651 production brigades, and 51 communes were the basic accounting units. By 1980, the figures had changed to 5.389 million, 42,429 and 41 respectively. The number of production teams as the basic accounting unit increased, while the number of production brigades and communes as the basic accounting unit decreased. Meanwhile, the average size of a production team had decreased from 35 to 31 households.

(2) There was improvement in the agricultural planning system. Beginning in early 1980, the various places in Sichuan Province tried out a new planning method and then gradually popularized it. The leading agencies only define the output and purchase quotas for farm and sideline products, and it is up to the production teams to decide what crops to grow, how much and how. The teams are free to dispose of their surplus products in their own way after fulfilling their duties to the state. The ratio between accumulation and distribution, in products and cash, is decided democratically by the commune members themselves who take into consideration the interest of the state and the collective as well as of the individual. Guanghan County in Sichuan, for instance, only lists the total output of grain and rapeseed and the total income from diversified undertakings as the main targets for examination, and it allows the output of grain to substitute for that of rapeseed, and vice versa. Since the natural conditions were favourable for the growth of rape, the county in 1980 reduced the wheat acreage and enlarged the rape fields. As a result, the county reported a greater output of both grain and rapeseed, and the commune members were financially better off.

At the end of 1980, some provinces went a step further in improving their planning system. Zhejiang Province decided not to issue planting and output quotas of a mandatory nature any longer, and it only handed down state purchase quotas of a directive nature which, once fixed, would remain unchanged for several years. As long as they fulfilled the state purchase quotas, the communes, brigades and teams could plant whatever crops they found best suited to local conditions. In the high mountain and deep valley areas of the Guizhou Plateau, wheat yields only a few dozen kilograms per *mu*, while wheat cultivation requires not only much labour and manure but also much longer growing period, which affects adversely the planting of the next crop, namely, paddy rice. However, provincial authorities used to stress the importance of enlarging the wheat acreage, issuing wheat growing

plans from one level to another. As a result, grain output did not increase for a long time. Having learned a lesson, the province, beginning in the autumn of 1980, decided not to issue any more directive-type planting quotas; it, instead, only suggested target figures. Now the communes, brigades and teams can plant whatever crops they wish in accordance with local conditions.

Meanwhile, the state itself has carried out some preliminary reforms in the agricultural planning and statistical indicator system. For a long time, state plans and statistics placed excessive emphasis on the "number of animals in stock at the year end" and the "grain yield per *mu* of the cultivated land", using them as the main indicators of the success or failure of the animal husbandry and grain production. This brought about a number of malpractices. Many local authorities, going after the year-end number of animals in stock, paid little attention to the speedy turnover of animal herds or raising the rate of animals delivered to the slaughter-house or the rate of meat produced, thus reducing the actual amount of production. Many local authorities, in order to raise the per-*mu* yield, reported less cultivated acreage or resorted to other deceptions to win honours, seriously affecting the accuracy of certain statistics.

To correct these malpractices, it is necessary to judge the animal husbandry and farm production by the actual economic performances. In the latter half of 1980, the State Planning Commission, the State Agricultural Commission, the Ministry of Agriculture and the State Statistical Bureau jointly issued a document stating that from then on, grain production shall be judged mainly by whether the total output, the amount of commodity and the amount of per-capita output and consumption are increased, whether the production cost has been lower and whether the income from the grain crops has been increased. By the same token, the performance in animal husbandry shall be judged mainly by the amount of animal products, the production cost and the income of the herdsmen.

The "number of animals in stock at the year end" and the "grain yield per *mu* of the cultivated land" are still kept in the agricultural statistical forms, but only as references.

(3) There has been the popularization of the contract system. To maintain the decision-making power of the communes, brigades and teams, a contract system has in recent years been practised on an experimental basis in many parts of the country. The contracts are normally concluded between the purchasing or supply and marketing departments on the one hand and the production teams on the other. The contract defines the responsibilities and obligations of the two parties. The quantity of the farm produce to be sold by the production team and the quantity and quality of the chemical fertilizers, farm machinery and spare parts, insecticides and other materials to be supplied by the supply and marketing department and the dates of delivery are explicitly set down in the contract. With the exception of causes beyond human control, such as natural disasters, the production team must fulfil the state tax and purchase quotas, and it will be rewarded for overfulfilment and penalized for failure to meet the quotas. The system is a breakaway from the old method of purchasing more in good years and less in bad years. It ensures to the production teams the freedom to deal with their surplus produce after meeting the state purchase quotas, thus improving the peasants' life.

(4) A system whereby state farms assume sole responsibility for their own gains or losses has been instituted. China's state farms have 4 per cent or more of the nation's total cultivated land, 9 per cent of its tractors, 78 per cent of its harvesters and 24 per cent of its lorries. The degree of mechanization in state farms is much higher than in the people's communes, but their labour productivity is not so high. In 1977, they produced merely 1,550 kilogrammes of grain per farm worker, and most of them ran at a loss from year to year. The main culprit was the irrational management system. The state was responsible for all the income and outlays of the state

farms, and the economic interests of the farm workers bore no relation to their performances. In other words, there was no such practice as more pay for more work. Beginning in 1978, the state farms under the land reclamation department introduced an independent business accounting system and assumed sole responsibility for their own gains or losses. They could negotiate loans if there was a shortage of funds, but any losses would be shouldered by themselves. Under a system established on some farms in recent years, profit-making units should turn over to the state 30 per cent of the profits and retain the rest for expanded reproduction and improvement of their workers' welfare. Farms which had a deficit owing to causes beyond their control were able to receive a certain amount of state subsidies, beyond which they would receive no more. They could keep for their own use any surplus subsidies they managed to have. As a result, enormous changes have taken place in the state farms, and there has been a complete turnabout from the longstanding deficit. They netted a profit of 300 million yuan in 1979 against a deficit of 90 million yuan a year earlier. Despite natural calamities in 1980, the state farms reaped good harvests and reported a 52.7 per cent increase in profit over 1979.

2. IMPLEMENTATION OF THE PRINCIPLE OF "TO EACH ACCORDING TO HIS WORK"; DEVELOPMENT OF A MULTIPLE-FORM RESPONSIBILITY SYSTEM IN PRODUCTION

Though ours is a socialist agriculture, the superiority of a collective economy was not fully displayed mainly because the management system was anything but perfect. There was inadequate attention paid to the peasants' personal interests; the principle of "to each according to his work" was not applied well; the problem of labour organization remained unsettled for a long time. The result was an enormous waste

of manpower, material and money. This led to economic backwardness over a long time in some areas where the collective economy was nearly bankrupt.

Resolutions on agriculture adopted at the Third Plenary Session of the 11th Central Committee of the Party set forth policy regulations for better management. In agriculture, forestry, animal husbandry, sideline occupations, fisheries and industry, whether there is independent business accounting or not, all units must establish, in line with the needs of production, the group or individual job responsibility system. They must also institute a system whereby the number of persons involved, the work quotas, the quality of work, remuneration and reward-and-penalty are clearly spelled out. Remuneration may take the form of recording work points on the basis of the work quotas, or giving work points according to the time actually at work plus popular assessment. Under the overall requirement of a unified accounting and distribution for each production team, work quotas may be assigned to groups, individuals or households by contract, with the payment linked to the output, overfulfilment of which will be, of course, rewarded. As for specifics, commune members could make their own decisions through democratic discussion.

In the few years after the Third Plenary Session, the peasants have come up with different forms of production responsibility system and methods of payment for work. For a long time in the past, there could be no guarantee that farm work would be done well. Commune members, while working in the fields, would often ignore the discipline and requirements and show no enthusiasm at all. And egalitarianism prevailed. The pay, for instance, was equal for all regardless of the differences in contribution. A noticeable change has now taken place thanks to a gratifying step in the establishment of scientific management.

China has a vast territory, but its economy is not only backward but also uneven in development. Moreover, agricultural work still depends mainly on animal power or manual

labour. It is marked by scattered operations and a long production cycle, and it is limited by natural conditions in many respects. All this means that the form of management, including production responsibility and payment, must be highly flexible. Different areas, communes, brigades, teams and even different jobs in the same production team require different forms of management, labour organization and remuneration. The principal forms of production responsibility and remuneration practised in various places are as follows:

(1) Contracting work quotas to groups or individuals with corresponding remuneration. The production team first determines the number of work points for a certain task and then contracts it to a group or an individual that must complete it before a deadline. The group or individual will be awarded with the work points for the job done, regardless of the number of hours that has been invested.

As a rule, farm work that is large in size and better suited for collective operation is contracted to groups, while odds-and-ends jobs are usually awarded to individuals or households. The contract forms also vary: some contracts are concluded on a temporary or seasonal basis, some remain valid for one or several years. The production team determines for the contracting groups or individuals the amount of labour and time needed for the jobs, the work quotas, the quality of work required and the work points to be awarded. The work points will be recorded by the production team upon job completion. Within the contracting group, the work points are divided among the participants by whatever means it chooses. The production team is responsible for final accounting and distribution in a unified way.

Compared with the previous method of evaluating the completed work of each person and crediting him with corresponding work points, the system of assigning work by contract demonstrates that the job responsibilities are more clearly defined and the method used is simpler. It is, therefore, convenient for the commune members and the cadres in charge

of management. Experience shows that as long as the work quotas are reasonable, this contract method is effective as a responsibility system and as a remuneration form. Its shortcoming lies in the fact that it is difficult to predetermine the work quotas in a scientific way or to assess the quality of work and that the remuneration is not directly linked with the final fruit of labour. So, under the circumstances, people tend to emphasize quantity at the expense of quality, competing for work points while neglecting the output at the year end.

(2) Fixing work or output quotas and linking remuneration with output. This method was once tried out during the co-operative movement.

Under this system, the production team, responsible for a unified control and distribution of the means of production, determines for the contractors the amount of labour power, work quotas, output, payment and reward-and-penalty for specified jobs. There have been many new developments of this system. Particularly, the method of contracting jobs along specialized lines and of linking payment to output has shown advantages. There is a division of labour, as well as co-operation, within the production team. Those who are good at farming are now working in the fields with each responsible for work on a certain area of land; those good at forestry, animal husbandry, sideline occupations, fisheries, industry or commerce, are contracted to do work along their specialties. The contracts are concluded with groups, individuals, or households under the overall principle of facilitating production and management; the production team decides whether to share out a job or not in the light of actual conditions. The output the contractors undertake to produce will be distributed by the team in a unified way, and rewards will be given for overfulfilment and penalties for failure. The relations between the production team and the contractors are spelled out in contracts and will remain unchanged for one or several years.

The method, as outlined above, has become more and more perfect in practice. In areas with more land and fewer people, the farm work is not contracted on the basis of labour power alone; it is based on the right proportion between population and labour, with a view to bringing into play the initiative of the commune members. In some plain areas which have a higher level of intensive agriculture, large pieces of farm work are performed by specialized groups organized by the production team and not by individual contractors. In other areas, remuneration is linked not to output but to net income, a practice enabling the commune members to pay attention to both the increase in the output and the lowering of the production cost. Some communes, brigades and teams have worked out uniform standards for computing the amount of completed work in farming, forestry, animal husbandry, sideline occupations, industry and commerce. The aim is to resolve the contradictions between those engaged in farming and those doing other jobs and to facilitate the development of diversified undertakings. In Jiangsu, Zhejiang, Heilongjiang, Jilin and Liaoning provinces and on the outskirts of big cities, some communes, brigades and teams, with developed diversified undertakings and a higher level of mechanization, are contracting work to specialized groups organized by production brigades instead of teams. Some communes practise competitive bidding when contracts are awarded, and this eliminates resentment among commune members, resentment that arises from cadres' malpractices or some other causes. All these practices and work forms play a positive role because each is suited to local conditions, economic and natural.

The method of contracting jobs to specialized groups and of linking remuneration with output is best suited to those production units that have developed diversified undertakings and a higher level of division and co-operation of labour. Take the Yuzhai No. 1 Team of Xiaoqiao Commune in Xinzheng County, Henan, as an example. This team has 750 *mu* of arable land, 231 *mu* of orchards, 83 head of draught animals, a trac-

tor, an automobile, diesel engines, electric motors, pumps and sprinkling machines. Besides, there are good conditions for developing diversified undertakings. Beginning in 1979, it received contracts to work in six fields: farming, gardening, forestry, livestock breeding, industry and sideline production (including mechanized transport), and manure collecting. Production went up rapidly, the collective economy grew steadily, and the life of its members noticeably improved. Per capita income in 1980 was 243.3 Yuan, or 104 yuan more than that of 1978. One day's labour was worth two yuan. The farming group produced 6,200 kilogrammes of grain per person, and the distributed food grain reached 360 kilogrammes per capita.

The method of contracting jobs on the basis of specialized groups and of linking remuneration with output has many advantages over other forms of responsibility system. First, it helps stabilize the status of the production team as the mainstay of the economy, and it combines mobilizing the initiative of individual commune members with giving full play to the superiority of having a unified management and a division of labour and co-operation. Second, it facilitates the development of diversified undertakings, the popularization of scientific farming and the growth of commodity production. Third, it helps bring into play individual talents and make full use of available materials. This method is widely adaptable, suited to both small and large production teams, and to both rich and poor teams. Most important of all is that this method can be adapted to changed circumstances, changes caused by the growth of productive forces or the increase of specialization and socialization of production.

(3) Fixing output quotas or farm work on the household basis. Fixing output quotas on the household basis is the method whereby all the farm work and output quotas are contracted to individual households, while the collective ownership of the means of production, the basic accounting unit and the unified distribution of the fixed portion of the output all remain the same. Output quota is determined by the farm

acreage and the amount of labour needed to turn out the output. The fixed portion of the output thus is parceled out by the production team in a unified way. The amount in excess will be kept by the household that has also to make up for any shortfalls.

The method of fixing farm work on the household basis is adopted on condition that the system of the production team and the collective ownership of the basic means of production remain unchanged. Farm acreage is allocated to individual households to work on, production tools are divided among them for use or bought by them for exclusive use, the households are responsible for the production investment, and the crops harvested are not to be distributed by the production team. The contracting households only have to meet the state tax and purchase quotas and also the quotas predetermined to be retained by the collective.

The two methods, as described above, are mainly followed in areas with a very low level of production and management or in remote areas with a sparse population. They are also preferred by some production teams that are ranked intermediate in the level of production and distribution, as well as by some rich teams. This is because poor management makes it impossible for the peasants to increase their income despite a rise in production or because cadres enjoy privileges.

By linking the peasants' performances directly with their income, these methods increase commune members' enthusiasm for production, and help change the poor and backward state of some areas at a fast pace. Peasants there have quickly solved the problem of food and clothing. This is especially true in communes, brigades and teams where per-capita farmland is large but yield per *mu* is low. The Xiaogang Production Team of Liyuan Commune in Fengyang County, Anhui, has over 100 people in 20 households, and per-capita acreage is more than five *mu*. Total grain yield used to be around 15,000 kilogrammes a year and food grain averaged 100 kilogrammes per person. In 1980, when the farm work was

contracted to individual households, total grain output jumped to 100,000 kilogrammes, and 18 households produced more than 5,000 kilogrammes of grain each.

But these methods have their limitations, too. Especially, the method of fixing farm work on the household basis means a switch from collective farming to a method with individual farming as its main aspect, thus giving rise to the following problems: First, production becomes limited in scale and the advantages of collective farming, such as division of labour and co-operation, cannot be easily developed. Second, it presents certain difficulties for collective undertakings and public obligatory services. Some places find it hard to retain collective accumulation in prescribed proportions. Third, as part of the means of production is owned by individual households, the mentality of private ownership might grow further, if political and ideological work is inadequate.

Commune members must decide for themselves, in the light of natural and economic conditions and the need of a growing production, which of the responsibility systems in production is to be followed. We must never impose any system uniformly, still less force a certain system on the peasants against their will.

The trend has been the development from a responsibility system which does not link remuneration with output to a system which does, from a system of contracting jobs to groups to a system of contracting them to households and even individuals. Among the various methods used, those of fixing output quotas or farm work on the household basis grew most rapidly. According to incomplete statistics at the end of 1980, 40 per cent of China's basic accounting units followed the system of contracting work quotas to groups or individuals, and 50 per cent adopted the system of linking remuneration with output. One quarter of the basic accounting units used the form of fixing output quotas on the basis of households or individual labourers, or fixing farm work on the household basis. Still a small number of units chose not to follow any

of them. There are great differences among the provinces, municipalities and autonomous regions in the priorities they give to the different forms of the responsibility system. The method of fixing work according to quotas is predominant in Shanghai, Heilongjiang and Tianjin; and so are the method of fixing output quotas on the basis of groups in Beijing, Sichuan and Xinjiang and the methods of fixing output quotas on the basis of households and individual labourers or fixing farm work on the household basis in Henan, Hebei, Anhui, Inner Mongolia, Yunnan, Guizhou and Gansu. It can be seen that the method of fixing work according to quotas is predominant in areas with a higher production level and relatively developed diversified undertakings or areas with a sparse population and a vast farmland, a combination most suited to mechanized farming. Most of the areas favouring the method of fixing output quotas or farm work on the basis of households are, relatively speaking, low in production level and the living standards. Since such areas occupy a large part of our country, this method will doubtless be adopted by still more units.

Some people are worrying whether the practice of fixing output quotas on the household basis will lead to polarization among peasants or engender capitalism. Virtually all China's industrial, commercial and handicraft enterprises are owned by the state or the collectives, and the rural collective economy, for the most part, is equally solid. There is no danger in following the system of fixing output quotas on the household basis in some parts of the country. Besides, land, being the property of the collective, is not subject to trade. Therefore, there will be no one who becomes a seller of labour as a result of having lost his land; nor will there be any one who becomes an agricultural capitalist by purchasing land. However, there is the possibility that peasants might engage in activities beyond the limits of law. Some peasants may get rich quickly because they have stronger labour power or are good at management. Some may find it hard to get rid of difficulties for a long time to come. Such being the case, the government

can adopt economic, administrative and legislative measures to maintain social justice and prevent too wide a divergence between poor and rich. All factors considered, polarization among peasants will not come about under our socialist system.

In short, whatever responsibility systems in production the peasants may take, they grow out of an objective necessity as they reflect the level of the productive forces in the rural areas at this time, as well as the managerial level of our working cadres. Different though they are, all these systems or forms can generate the masses' enthusiasm, promote a faster development of agricultural production as well as diversified undertakings, enable the peasants to get rid of poverty and become well-to-do, and push agriculture forward as rapidly as possible in the direction of modernization. These systems or forms can persist throughout the historical stage of socialism, as they are a form of management born out of the public ownership of the means of production on the one hand and the principle of "to each according to his work" on the other. The only thing to be expected is that along with the growth of the productive forces, the form of linking remuneration with output will constantly develop from a lower level into a higher one, such as from fixing farm work or output quotas on the household basis to contracting work along specialized lines. That is why we have to review our work from time to time, so that we can not only gradually improve the system but also popularize it on a still wider scale.

3. IMPLEMENTATION OF CORRECT GUIDELINES IN AGRICULTURAL PRODUCTION; IMPROVEMENT OF ITS STRUCTURE

The Decisions of the Central Committee of the Communist Party of China on Some Questions Concerning the Acceleration of Agricultural Development, made public in 1979, calls for the "correct and comprehensive implementation of the

principles of 'simultaneous development of farming, forestry, animal husbandry, sideline occupations and fisheries', and of 'taking grain as the key link and ensuring an all-round development, of adaptation to local conditions and appropriate concentration of certain crops in certain areas'." The implementation of these principles in recent years has contributed much to the recovery and expansion of China's agriculture.

China has a large population but only limited arable land. There are frequent natural calamities. Technologically she is backward. However, she is endowed with rich natural and labour resources. Therefore, while ensuring a good grain production, we must concentrate our efforts on the development of diversified undertakings so as to make good use of a vast territory and a huge population and to overcome the disadvantage caused by a limited arable acreage. Statistics show that China's arable land amounts to less than 1.5 billion *mu* (actual acreage may be larger). Of course, we may reclaim land to expand arable acreage, provided that the forest, animal husbandry and fishery resources and water and soil conservation would not be adversely affected. But there is a limit to this expansion. Apart from the arable land, China has 1.8 billion *mu* of forests, over 3.3 billion *mu* of exploitable grasslands, 0.81 million square nautical miles of offshore fishing grounds, 7.38 million *mu* of sea water breeding area, and 250 million *mu* of freshwater breeding area. Besides, there are large tracts of barren mountains and land, grass-covered mountains and slopes. All this is favourable to the development of diversified undertakings.

In the past, however, owing to the erroneous ideology guiding our agriculture and the one-sidedness in interpreting and implementing the principles for production, our efforts were mostly concentrated on the utilization of the limited arable acreage and the production of foodstuffs. As a result, the natural resources were not fully exploited, nor was the structure of our agricultural production well-balanced. There was this conspicuous problem of unitary production that

stressed farming at the expense of forestry, animal husbandry and fisheries, emphasized the production of foodstuffs at the expense of cash crops, and set high-yielding grain strains above other food grains and soya beans. To boost grain production, attempts were even made in many localities to destroy forests and grasslands to create farmland or reclaim land from lakes. The result was that the production of cash crops, together with forestry, animal and fish products, grew at a sluggish pace or did not grow at all. Total output of oil-bearing crops in 1976 was lower than that in 1952; soya beans, lower than that in 1951. There were serious imbalances in structure among the different branches of agriculture. Of the total agricultural output value in 1976, farming accounted for 69.3 per cent, animal husbandry 13.9 per cent, sideline occupations 12 per cent, forestry 3.3 per cent, and fisheries 1.5 per cent.

A series of measures have been taken to improve the structure of agricultural production during the past few years. They fall into the following categories:

(1) While steady growth of grain production is ensured, the proportions among different crops are appropriately adjusted to end the single-crop cultivation. Some localities, having made a survey of their natural and economic resources, as well as regional characteristics, preliminarily put forward a new pattern of production, in which farming, livestock breeding, forestry or fisheries are developed as local conditions permit. Cultivated land unsuitable for grain production has been returned to animal husbandry or forestry. In areas with better conditions for the development of cash crops, grain acreage was reduced to make room for the growing of such crops. In 1980, total grain acreage in China was 1,747.09 million *mu*, a decline of over 64 million *mu* or 3.5 per cent from that in 1976. The year 1980 saw decreases in acreage for all major grain crops, the largest decrease being that of tuber crops. The acreage under cash crops in 1980 grew to 238.82 million *mu*, an increase of 32.98 million *mu* or 16 per cent over

1976. The acreage for vegetables, melons, fodder and reed also increased. New bases for turning out farm and subsidiary products have been established while the old ones have been consolidated and strengthened. Apart from strengthening bases for producing marketable grain the State Council has decided to set up on Hainan Island bases for producing rubber, coconut, coffee, cocoa, pepper, and other tropical cash crops and for growing high-priced tropical timber trees. Various departments in the central government have set up beef cattle bases in 200 counties and mutton bases in 157 counties. More than 1,000 large bases have been established across the country to promote the development of hemp, silkworm cocoons, tea, bamboo, varnish, and a variety of fruits.

(2) Agricultural production is promoted under the principle of overall consideration and all-round arrangement so as to manage well the relationship among farming, forestry, animal husbandry, sideline occupations and fisheries. In judging agricultural performances, we have given up the old yardstick of grain output set in the National Programme for Agricultural Development in 1956-67, and replaced it with a comprehensive evaluation covering the production of not only grain but also cash crops, forestry, animal husbandry, sideline occupations and fisheries, collective accumulation and peasants' income, etc. Governmental departments have proportionally increased the supply of funds and materials to forestry, animal husbandry, sideline occupations and fisheries. Appropriate readjustments have been made with respect to tax rates, finance, credit, and material supplies, all in line with the principle of simultaneous development of farming, forestry, animal husbandry, sideline occupations and fisheries and in line with their actual conditions. In capital construction, the previous one-sided emphasis on farmland improvement and water conservancy projects has been altered to increase investments in forestry, animal husbandry, fisheries and the circulation of farm produce. As for the arrangement of agricultural labour force, groups, households and individuals specializing in

forestry, animal husbandry, sidelines and fisheries have been organized everywhere in order to provide reliable labour power needed for these undertakings. The rural supply and marketing co-operatives has always considered it an important task to help the communes, brigades and teams develop diversified undertakings. Such co-operatives in various localities have set up special funds to be loaned interest-free to communes, etc. to expand the production of native and subsidiary products. A large force of professionals is available to help solve problems.

(3) Further steps have been taken to carry out the policies of developing diversified undertakings. None is more important than the grain policy. The biggest problem in expanding a diversified operation in the past was the lack of adequate food. A number of areas with the conditions for developing diversified undertakings were forced to enlarge grain acreage and even destroy forests and grasslands or fill in lakes for this purpose. Now it is stipulated in various localities that areas concentrating on cash crops, forestry or animal husbandry, if they are not self-sufficient in food stuffs, will obtain the needed supply from the state so that they are not lower than the nearby grain-producing areas in the level of food stuffs. When they sell products of their diversified undertakings in excess of the state purchase quotas, they will be granted more food stuffs accordingly. In some areas producing cotton, sugar-yielding crops and other cash crops, a subsidy in the form of foodstuffs has yielded positive results in recent years. In some mountainous areas that are unfavourable for grain production, the state grain tax and purchase quotas are either kept stable or reduced or exempted altogether so that these areas can concentrate on developing diversified undertakings. Various localities have also taken a further step to carry out the policy of awarding those who overfulfil their state purchase quotas and the policy of fixing prices and rationalize the ratio between the amount allocated for state purchase and the amount to be retained by the producers. On

the basis of increased production, the producers would sell more to the state and at the same time retain more for their own consumption. Some localities have adopted a more flexible policy by allowing the sale of an excessive amount of cash crops to the state to fulfil the state grain purchase quotas. Communes, brigades and teams in cash crop growing regions are allowed to exchange their products for food grain with units in grain producing areas.

(4) There has been improvement in the channels of circulation. Diversified undertakings involve both products in large quantity and products in small quantity. But, generally speaking, they all have a high commodity rate because they are produced basically for the market. The improvement of circulation links is therefore extremely important. In recent years, circulation channels of many forms have been opened on top of the state-run commerce. Communes, brigades and teams are allowed to market their surplus produce, selling them at the village fairs, or through sales contracts signed with other areas or by opening retail shops in towns. In areas with a concentrated production of cash crops, forestry or animal husbandry, the state assists the communes, brigades and teams in setting up processing enterprises with respect to funding, taxation, technique and marketing, etc., provided that these enterprise do not contend for raw materials with the existing large factories. The state also helps in organizing associations embracing agriculture, industry and commerce on the basis of voluntary participation and mutual benefit.

Thanks to the implementation of the principles of "taking grain as the key link and ensuring an all-round development, of adaptation to local conditions and appropriate concentration of certain crops in certain areas", farming, forestry, animal husbandry and sideline occupations have all made headway, and the structure of agricultural production has also improved. Their total output value in 1980 rose by 23.5 per cent over 1976 (based on the 1970 constant prices, the same for the following figures). Farming was up 14.6 per cent, forestry

15.9 per cent, animal husbandry 26 per cent, sideline occupations 76 per cent (industrial sidelines 97.7 per cent, run-of-the-mill sidelines 9 per cent), and fisheries 8.8 per cent. Of the total agricultural output value in 1980, farming accounted for 64.3 per cent, forestry 3.1 per cent, animal husbandry 14.2 per cent, sideline occupations 17.1 per cent, and fisheries 1.3 per cent. Compared with the levels in 1976, the proportion of farming, forestry and fisheries dropped, while that of animal husbandry went up a little and sideline occupations showed a considerable increase.

Practice over the years has shown the great potential for exploiting advantages when the economic structure is readjusted. Pengxian County on the western Sichuan Plain consists of mountains and hills as well as plains. Owing to the misreading of "taking grain as the key link" in the past, all areas concentrated on growing grain crops and no diversified undertakings were allowed. As a result, there was no diversified economy to speak of; neither was there much progress in grain production. Between 1966 and 1976, grain output in the county rose by a mere 9 per cent, while per-capita output declined. After 1977, agricultural structure was readjusted to make maximum use of the advantages offered by the mountains, hills and plain areas. Grain and cash crops were equally emphasized, and tremendous changes took place in two years. Total grain output in 1979 went up 29.7 per cent compared with that in 1976. At the same time, ten bases were set up in the mountainous areas to grow spruce trees, bamboo, tea and peaches and to produce varnish. Animal husbandry also expanded. Total output value of agriculture in 1979 was nine times that for 1976. Yanchi County in the Ningxia Hui Autonomous Region, lying on the rim of a desert, is suited for the development of animal husbandry. But there was one-sided emphasis on grain production in the past, and the economy stood still for a long time. Grain output in 1976 was lower than that before Liberation, the number of sheep and goats was at the early post-Liberation level, and each com-

mune member earned only 38 yuan on average. After 1976, the production structure was changed as a result of adopting the policy of "taking animal husbandry as the key link and ensuring an all-round development of farming, forestry and animal husbandry in accordance with local conditions". Great changes were made in three years: the number of sheep and goats rose from 310,000 to 530,000, an increase of 70 per cent; per-capita income grew from 38 to 92 yuan, more than doubled; grain and oil rose by 68 per cent and 69 per cent respectively.

4. ACTIVE AND STEADY PROMOTION OF ASSOCIATIONS EMBRACING AGRICULTURE, INDUSTRY AND COMMERCE

Promotion of associations embracing agriculture, industry and commerce is an important measure in the restructuring of the agricultural management system.

Associations of this kind have grown rapidly. The experiment began in 1979 and by October 1980, 698 state farms, or 34 per cent of the total under the jurisdiction of the land reclamation departments, had been involved. As far as the people's communes were concerned, more than 20 counties in the country were either actively engaged in the trial run of such associations or were preparing to do so.

Great variation in economic conditions in different areas has led to multiform associations. As for the state farms, associations are organized mainly in the four forms: (a) Associations of farms within the land reclamation departments. For instance, some farms may jointly run processing industries and commerce and organize an associated agricultural-industrial-commercial firm. Or, one state farm may set up an association by developing processing and marketing of farm and sideline produce on the basis of agricultural production. Other farms may run joint enterprises with factories under the land reclamation departments. Some localities may organize

specialized companies along different lines of production, while other localities may set up supply and marketing companies, industrial companies, building companies, transport companies or tourism services as the local conditions permit.

(b) Economic associations between state farms and rural communes, brigades or teams. For instance, the Changjiang Union Enterprise in Chongqing engages in the joint production, processing and sales of tea, fruit and milk with several hundred production teams. (c) Associations between state farms and other economic units. For example, the Huguang Agricultural-Industrial-Commercial Enterprise in Zhanjiang, Guangdong, engages in timber production and furniture making and marketing in conjunction with Beijing's Changxindian Furniture Factory and at the same time sells the products together with Beijing's Xijiekou Neighbourhood Office. State farms in Beijing and Tianjin run factories together with local industrial departments. (d) Associated enterprise of state farms may undertake agricultural and animal husbandry production or farm produce processing together with overseas firms. For instance, a Tianjin joint enterprise runs a winery with a French firm, and a Nanning associated enterprise operates a canned pineapple factory with an Australian firm, etc.

There are multiform associations in people's communes, too. (a) Associations of collective economic units, such as those formed by several communes, or by a commune with its production brigades and teams. There are also associations based on purchasing stations of the commune supply and marketing co-operative in conjunction with production teams. Sometimes processing factories and sales shops are jointly set up by production teams. (b) Associations between the collective economy of people's communes and state-owned enterprises. They include associations of communes and state farms as stated above, and associations formed by communes or brigades or teams with state-run factories, such as a clothing factory jointly set up by the Qingdao Garments Company and the Dayao Production Brigade of the Fushan Commune.

(c) Multi-regional joint enterprises. For instance, communes, brigades and teams in Jianyang Prefecture, Fujian Province, and the Shanghai Bureau of Commune- and Brigade-Run Industries jointly run the Minhu Forestry & Timber Products Joint Company, with the workshops set up in Fujian and the sales shops in Shanghai, each making the most of its advantages.

Generally speaking, these associations come about via contracts among participants. Two different methods are adopted to divide the profits. The first method is generally used when processing or commercial enterprises and producing units sign contracts. The producing units get a portion of the processing and sales profits in proportion to the amount of agricultural products they provide, or share the profits according to a predetermined ratio. Or the farm products are purchased at a price higher than that fixed by the state. These measures help reduce the long-standing friction over big price differences between raw materials and processed goods, and also help ease the contention for raw materials between small and big plants. The second method of collective investment and sharing profits according to contributions is based upon the principle of equality, voluntary participation and mutual benefit; and the associations are truly joint entities formed by the producing units. Generally, the participating units delegate persons to form a shareholders' conference, the supreme unit of power of the association. The duty of the conference is to elect a management committee by democratic means, draw up or revise the association's constitution, examine and approve its plans for production, supply and marketing, decide on the distribution formula, work out various management and operation systems, appoint the manager and deputy managers, recruit staff members, etc. This method facilitates democratic management and does away with the past practice of over-interference by the administrative agency with economic work. Profits of the association are used to pay for dividends and the costs incurred by the producing units in the form of labour

service, food consumption and land use. The remainder is used for paying the costs of operation and administration and expanding reproduction.

Apart from agricultural-industrial-commercial associations, joint agricultural-commercial operations have also come up in various places. The general practice is: a supply and marketing co-operative, through consultations, signs an agreement for joint operation with several production teams in the spirit of voluntary participation and mutual benefit. A co-operation of this kind breaks down the barrier between different administrative regions. Mainly supported by the purchasing station of the supply and marketing co-operative, a joint operation shop does independent business accounting and assumes sole responsibility for its profits or losses. Delegates representing participating units form a committee for democratic management. After the taxes are deducted, the shop's profits are divided between the production teams and the supply and marketing co-operative in a predetermined ratio.

Associations embracing agriculture, industry and commerce appeared in China only a few years ago, but they have shown many advantages.

(1) They return part of the profits derived from processing and sales to agriculture and thereby raise the latter's ability to expand reproduction. In China, the prices of farm products are too low while the prices of manufactured goods are too high. This phenomenon has yet to be corrected although the prices of farm products were raised in 1979. If agriculture remains merely a producer of raw materials, it would not be able to expand reproduction all by itself or to speed up its modernization. It makes a great difference whether an agricultural production unit engages in processing and marketing or not. In some places, one yuan's worth of fruit may, after processing, increase to five or six yuan. This is also true with the marketing of farm products.

(2) Associations raise the comprehensive utilization rate of raw materials and rationalize production. Corncobs, which are generally burnt as fuel, can be used to make wine at processing enterprises. An ox or pig is usually slaughtered only for meat and skin and the remaining part is cast away. At the processing factory, the skin can be processed into leather or leather goods, the bones into glue, and the hair into felt.

(3) Associations help solve part of the problem of surplus labour in the countryside. Their development will entail expansion of industries, commerce and other service trades in the rural areas, and they provide an important outlet for the surplus labour there.

(4) Associations break down the barrier between regions, units of different forms of ownership, and trades. Without improper interference by administrative agencies, they help organize rural economic activities under the principle of economic rationality and thus achieve better results. Processing farm products on the spot not only cuts transportation costs but also, in the case of perishable goods, reduces loss. Statistics show that about one-tenth of China's fruits become rotten because of failure to process them on the spot or to transport them to the market in time. Producers engaging in sales can reduce intermediate links in circulation and contribute to the saving of social labour and to the increase of social wealth.

(5) They help change the monopoly of commerce by the state-owned enterprises, compel the state's commercial departments to improve their services, enliven the rural economy and bring conveniences to the consumers.

(6) Associations serve as a stimulus to reform the agricultural management system. Their establishment in many places encounters difficulties caused by the existing management system and their rapid development will play a positive role because it shows the need to restructure the system. In some places where associations make their presence, local authorities change the allocation of production plans to producing units to the allocation of product purchase quotas, beyond

which the surplus can be handled by the producing units themselves. In some places, the supply and marketing co-operative which is put under the commune becomes part of the association. Some associations have their power increased so much that they can sign production and sales contracts with enterprises in other areas and thus better meet the needs of the buyers. In some areas the business scope of the associations is extended so that they can set up retail shops, organize sales shows, and sponsor cultural and other services.

5. ASSISTANCE TO HOUSEHOLD SIDELINE OCCUPATIONS AND VILLAGE FAIRS, AND THEIR EXPANSION

The productive forces of agriculture in China are at a very low level, and the socialist collective economy is likewise very weak. A considerable part of the peasants' income is derived from household sideline occupations, and so are part of the supplies to the cities and for export. In 1979, 39 per cent of China's basic accounting units averaged a per-capita income of less than 60 yuan from the collective economy. Of the 60 yuan, 50 yuan were spent in buying back 250 kilograms of food grain (referring to paddy rice areas), vegetables, cooking oil, etc., leaving only 10 yuan that were barely enough to buy the rationed cotton cloth. Other costs such as housing, medicine, condiments, weddings and funerals, education and recreation, had to be covered by their earnings from domestic sidelines. Surveys show that in the poor teams (namely, 16 per cent of the nation's production teams in 1979), where the per-capita income derived from the collective economy was less than 40 yuan a year, the peasants' earnings from domestic sidelines surpassed their income from the collective economy almost without exception. Otherwise, these peasants would not have been able to survive. Even in production teams with a higher production level and more income, domestic sideline production is also indispensable. A survey of 330 peasants

households in 11 counties in Jilin Province shows that while the households received an average of 120 yuan per person from the collective economy in 1979 which was higher than the national average and constituted 49.4 per cent of their total per-capita income of 243 yuan, they earned 105 yuan, or 43.2 per cent of the total, from domestic sidelines and 18 yuan or 7.4 per cent from all other sources. This shows that domestic sideline production is very important even to the rich production brigades and teams. Among the non-staple foodstuffs supplied to the cities, a greater portion of pork and eggs comes from peasants' domestic sideline production, and so does a large part of the export goods. As for odds-and-ends native products, including medical herbs, the portion supplied by domestic sidelines is even greater.

An important policy in the rural areas is to encourage and support the development of domestic sideline production by commune members while actively expanding the collective economy. But this policy, marred by frequent interruptions, was not well implemented in the past 20 years. During the ten years of "cultural revolution", domestic sideline production was seriously damaged, and in some areas it virtually stopped.

After 1978, the policy towards domestic sidelines underwent a big change. Guidelines for domestic sidelines and their scope were set forth in the documents adopted at the Third Plenary Session of the 11th Central Committee of the Party. The previous restrictions, if improper and inappropriate, were lifted. Commune members are free to exploit favourable conditions to develop domestic sidelines while pushing forward the collective economy. A number of measures have been taken in various places in this spirit:

(1) Private plots and plots for growing fodder have been expanded. Previously, private plots in a commune were limited to 5 to 7 per cent of the total cultivated land of a production team. In recent years, their size has been extended in areas with rich land resources or with large tracts of wilder-

ness, undeveloped land or barren slopes. In some areas, commune members have received plots for growing fodder so as to develop animal husbandry. Some provinces have granted part of the barren hills and slopes to commune members for the growing of fuel woods, trees or grass. In other cases, the size of the courtyards has been increased. A survey made in Sichuan Province at the end of 1980 shows that altogether the production teams in that province extended the peasants' private plots and fodder plots by three million *mu*. At present, the size of these plots make up more than 10 per cent of the total cultivated acreage. In Ningxia private plots may be as much as 12 per cent of the farming acreage. In Shaanxi a commune member will be granted one *mu* of fodder plot for every draught animal he raises.

(2) Previous restrictions on domestic sidelines are removed, their scope is enlarged, and the variety of their products is increased. It was previously stipulated in some localities that private plots could only be used to grow grain and vegetables; that peasants could only engage in self-supporting production, not commodity production; that peasants were not allowed to plant trees or tea shrubs in these plots or to raise draught animals; and that the number of pigs, sheep, goats or poultry they raised be limited. Now, all these restrictions have been lifted. The peasants are free to plant crops or engage in whatever operations they wish, provided that they do not harm the interests of the state or the collective economy and that they do not engage in exploitation or speculation. At present, the scope and variety of domestic sidelines and their sales volume are the largest in the last two decades. Peasants are now raising cattle, horses, donkeys instead of merely pigs, sheep, goats and poultry as they did in the past. Some peasants are digging ponds to breed fish, while others are growing oil-bearing crops, cotton, hemp and medicinal herbs, instead of growing only grains and vegetables as they did in the past. Handicrafts have also made headway, such as weaving and plaiting, embroidery and arts and crafts.

(3) The state, communes, brigades and teams have begun to help and guide household sideline occupations with respect to funding, materials, technology and marketing. To help commune members turn their private plots and domestic sidelines to good account, production teams take them into consideration when planning or arranging collective production. For instance, a proportional amount of farmhouse manure is allocated to private plots. Wherever conditions permit, peasants are supplied with chemical fertilizers and good strains of seed. They also enjoy support in the area of electric power, irrigation and the control of plant diseases and insect pests. Credit co-operatives in some communes have lifted the previous bans on granting loans to peasants for undertaking domestic sideline occupations, for raising cattle or donkeys, for rearing chickens, ducks, geese or rabbits, and for engaging in small-scale handicrafts. Now, the credit co-operatives are actively helping commune members who have the conditions to develop sidelines but are short of funds. Besides, the various state agencies have readjusted the taxes on domestic sidelines and raised their prices so as to encourage and promote their production.

Supported by communes, brigades and teams, rural household sideline production has grown vigorously as never before. Some communes, brigades and teams sign contracts with their members, entrusting the latter with tending fruit trees, water surface, reed and small fish ponds which are unsuitable for collective operation. In some places, commune members are allowed to use fields that lie fallow in winter to grow vegetables, field ridges to plant soya beans, scattered barren plots on hills or mountains to plant trees, or small ponds near houses to breed fish. They own the trees they have planted beside the villages, houses, river banks, roads and paths.

Flexible policies have brought about a rapid expansion of household sidelines. The number of pigs raised by the commune members individually was 224.054 million in 1977, and

it grew to 272.566 million in 1979, an increase of 21.7 per cent. The number of sheep and goats increased from 47.474 million in 1977 to 71.099 million in 1979, up 49.8 per cent. Surveys made by the State Statistical Bureau show that commune members earned 62.6 yuan per capita from household sideline occupations in 1980, 2.38 times the 1976 figure.

Earnings from most items of domestic sidelines indicate increases in varying degrees. Animal and poultry raising grew faster than planting, and cash crops increased faster than grain crops. According to a survey of 500 households in Anhui Province, five categories of domestic sidelines in the first half of 1980 showed increases over the same period of 1979: planting, up 9.4 per cent; animal and poultry raising, 65.5 per cent; handicrafts, 50.5 per cent; gathering, fishing and hunting, 5.9 per cent. Sidelines other than the above five categories declined by 18.6 per cent. With the exception of grain production which showed a slight decline during this period, the staple products registered increases in output per household; rapeseed by 73.5 per cent, sold pigs by 55.6 per cent, sheep and goats by 20.5 per cent, poultry by 22.3 per cent, and eggs by 41.2 per cent.

Household sideline production has grown much faster than the collective economy. According to surveys made by the State Statistical Bureau, peasants' net income from the household sideline occupation constituted 23.2 per cent of their total earnings in 1976, and it was as much as 27.5 per cent in 1979 and 32.7 per cent in 1980. The proportion of their income derived from the collective declined during the same period. A survey made in Anhui Province shows that the peasants' net income from domestic sidelines (after deducting production costs) constituted 24 per cent of their total earnings in 1978, 33.1 per cent in 1979, and 45.5 per cent for the first half of 1980.

New situations have appeared in operations. In some places a number of peasant households or individuals have become specialized in raising cattle, sheep, goats, pigs, chickens,

rabbits or bees. It is estimated that a specialized household could raise 1,000 chickens if the state would provide adequate assistance with respect to feed and coops. If 1,000 households on Beijing's outskirts can specialize in raising chickens, they will produce four times as many eggs a year as a mechanized chicken farm the size of the Hongxing Farm in Beijing produces. The Hongxing Farm was set up with an investment of several million yuan, whereas the specialized households would require much less funding; they do not need any investment by the state or commune. A specialized household requires one kilogramme less of feed than a chicken farm in producing one kilogramme of eggs.

Parallel with the expansion of household sidelines, village fairs and farm produce markets in town have also recovered and developed fairly quickly. Such fairs and markets are an outlet for peasants' domestic sidelines as well as the products of the collective economy. This outlet will exist as an adjunct to the socialist commerce as long as the household sidelines and the collective economy coexist in the countryside. During the past 20 years, village fairs and markets functioned off and on. They were closed down in many places during the "cultural revolution". Fines, confiscation of products and other measures were employed to prevent commune members from going to village fairs.

Village fairs were reopened in a planned way in line with the spirit of the Third Plenary Session of the 11th Central Committee of the Party and the principle of flexible control and orderly development. Towards the end of 1980, there were 37,890 village fairs in the country, 1,123 more than one year earlier, or 4,588 more than two years earlier. The figure surpassed that in 1965, the year before the "cultural revolution" started, which was 37,000. New fairs have also been opened in the industrial and mining areas of many localities. Beginning in 1979, farm and sideline produce markets were opened in several hundred cities. The number reached 2,919

at the end of 1980, an increase of 693 over the figure of one year earlier.

Market control departments in various localities have changed their policy towards village fairs and loosened restrictions. As a result, communes, brigades and teams in many localities can ship their produce over a long distance for sale, some traders and pedlars can participate in the transportation and sales of farm and sideline produce in small quantities, and some commune members can market mountain goods, native produce and fresh goods in town. More and more goods are allowed to be sold in markets. For instance, Shandong Province has reduced the kinds of goods banned at markets from fifty to six. Besides, state farms, livestock breeding farms and fishing farms are allowed to market their surplus products after fulfilling the purchase quotas. As a result, the market is more brisk when different sectors of the economy and different forms of management and operation emulate and complement one another. Large increases have been reported in the trade volume at village fairs. It was 17.1 billion yuan in 1979, a 36 per cent increase over 1978, and it reached 21.1 billion in 1980, 23.4 per cent more than the year-earlier figure. The increase is also true with the farm and sideline produce markets in the cities. The sales volume was 1.2 billion yuan in 1979 and then doubled in 1980 to reach 2.4 billion. Sales vary from item to item. The proportion of chickens, ducks and geese rose from 18.9 per cent in 1979 to 53.4 per cent in 1980. More than half of the chickens, ducks and geese consumed by the urban population were supplied by these markets. The proportion of beef and mutton went up from 11.5 per cent to 29 per cent, aquatic products from 10.4 per cent to 21 per cent, vegetables from 6.7 per cent to 10.9 per cent, fresh fish from 3.5 per cent to 8.5 per cent, and pork from 2.9 per cent to 4.8 per cent. The total volume of retail sales increased by 11.8 per cent from 1979 to 1980. Transactions at the village fairs and urban farm and sideline products markets (based on listed prices) constituted 8.4 per cent

of the total volume of retail sales in 1980, or 0.7 per cent more than the year-earlier figure of 7.7 per cent. Prices at these fairs and markets are basically stable. The general price index at the end of 1980 rose by 1.17 per cent in the rural areas and 5.6 per cent in the cities from the year-earlier level. The difference between the listed price and the market price is narrowing. It dropped, in one year, by 0.5 per cent to 34.5 per cent for the rural areas at the end of 1980 and by 4.1 per cent to 44.5 per cent for the cities.

6. MORE STATE AID TO AGRICULTURE

To enable peasants to live a better life and expand agricultural production, the state has provided them with more economic benefits by making drastic readjustments with respect to the prices of farm produce, state appropriations, credits, agricultural tax and purchase quotas of farm produce.

In the past, the prices of agricultural products in China were a little too low compared with the prices of manufactured goods. While it is permissible to obtain from agriculture by way of pricing part of the funds needed to build up industry, it is harmful to agricultural development to keep prices of farm produce at a low level for a long time. To narrow the price difference between industrial and farm products, the state raised the purchasing prices of 18 major farm and sideline products including grain, cotton, oil, hemp, sugar cane, beet, pig, cattle, sheep, fish, egg and silkworm cocoon, beginning in the summer of 1979 when newly harvested grain was put on the market. Grain purchasing price was raised by 20 per cent, and the average increase for the 18 products was 24.8 per cent. An additional increase was applied to the amount of grain, cotton and oil sold to the state in excess of the purchase quotas. The addition was 50 per cent for grain. State subsidy for raising the prices of the 18 products was as much as 7.8 billion yuan in 1979. Since the Liberation, the

purchasing prices of farm produce were raised on several occasions, but the 1979 hike was the largest. In 1980, the state again raised the purchasing prices of cotton, sheepskin, jute and ambary hemp, timber varnish, tung oil and other farm products. A greater variety of farm products was purchased at negotiated prices or at added prices when purchase was made in excess of the state quotas. With the prices in 1950 in China taken as 100, the general index of the purchasing prices of farm and sideline products was 146.2 in 1957, 208.7 in 1975, 265.5 in 1979 and 284.4 in 1980. The state subsidies to pay the preferential prices of agricultural means of production and of industrial goods in aid to agriculture came to 2.5 billion yuan in 1979.

The years after 1977 saw notable increases in state investment in agriculture. State appropriations for agriculture, including capital construction in agriculture, forestry, water conservancy and meteorological services, and administrative expenses assistance to rural communes, rural relief funds, etc. amounted to 63.16 billion yuan in the ten years from 1966 to 1975, accounting for 9.8 per cent of the total state financial expenditures and averaging 6.3 billion yuan a year. State appropriations for agriculture in 1977-78 reached 25.68 billion yuan, averaging 12.84 billion a year, and their proportion in the state financial expenditures rose to 13.1 per cent. The aid-agriculture funds to assist poor areas, communes, brigades and teams totalled 3.95 billion yuan in 1977-79, averaging 1.32 billion yuan a year, which was 3.6 times the annual figure during the Third and the Fourth Five-Year Plan periods. Agricultural loans in 1977-79 increased by 4.63 billion yuan, greatly surpassing the figure in the previous ten years. Over 90 per cent of the loans was used to help rural communes, brigades and teams. The funds (state appropriations and agricultural loans) were mainly used to speed up the construction of bases for the production of marketable grain and cash crops, livestock breeding centres and ocean fishing bases.

They were also used to assist grain-deficient areas in developing agriculture.

China's agricultural taxation has never been heavy. The state has a zero or low tax policy towards agriculture and enterprises run by communes, brigades, or teams. For 20 years, the agricultural tax has remained almost unchanged at the level of about three billion yuan. The proportion of this tax to the total agricultural income has been on the decline because of the steady increase of the latter. In order to expand China's rural economy and develop agriculture as rapidly as possible, the rural taxation was readjusted in 1979. One of the aims is to give preferential treatment to the areas, communes, brigades and teams in the remote and economically backward regions. Commune- and brigade-run enterprises in the border and autonomous counties (or banners) are exempted from industrial and commercial income tax for five years. Beginning in 1979, the same rule applies to old revolutionary base areas whose economic conditions remain very difficult to this day. In grain producing areas, the grain-deficient production teams (including brigades that are the basic accounting units) are exempted from the agricultural tax if the per-capita food grain is below the level at which the tax is levied. Another aim of the tax readjustment is to assist the development of commune- and brigade-run enterprises. For products manufactured by commune- and brigade-run enterprises that cater to the needs of agricultural production or to the needs of life of their own commune members, industrial and commercial tax and industrial and commercial income tax can be reduced or cancelled altogether. Furthermore, the minimum for levying industrial and commercial income tax on the commune- and brigade-run enterprises is increased somewhat; if the income is below the minimum the tax is exempted. Statistics show that reductions of agricultural tax for grain-deficient areas in 1979 amounted to 2.35 million tons of grain, and all tax reductions and cancellations added up to two billion yuan.

The Decisions of the Central Committee of the Communist Party of China on Some Questions Concerning the Acceleration of Agricultural Development stipulates that the nation-wide grain purchase quotas shall remain at the 1971-75 level for a fairly long period to come. No government purchases will be made from paddy rice growing areas where the food grain averages less than 200 kilogrammes per capita, or from areas growing other grains than wheat or rice if the food grain averages less than 150 kilogrammes per capita. This means a change from the long-standing practice of over-purchase of grains by the government.

Industry has also provided more aid to agriculture. Total amount of chemical fertilizers applied for rural use in 1979 reached 10.86 million tons, twice the 1975 figure of 5.37 million tons. The amount of chemical fertilizer applied per *mu* rose from 3.75 kilogrammes in 1975 to 7.3 kilogrammes in 1979, an increase of 98 per cent. Electricity for rural consumption in 1979 amounted to 28.27 billion kwh or 54.4 per cent more than in 1975, averaging 18.9 kwh per *mu* as against 12.2 kwh per *mu* that year. Large and medium-sized tractors numbered 667,000 in 1979 as against 345,000 in 1975, a rise of 93 per cent. Power-driven irrigation and drainage machinery increased from 48.666 million h.p. to 71.221 million h.p. in the same period, a rise of 46.3 per cent.

7. RAPID RECOVERY AND EXPANSION OF AGRICULTURAL PRODUCTION

In 1977-80, especially after 1978, agricultural production recovered and increased fairly rapidly, thanks to the implementation of the measures described above. The development was marked by several outstanding features.

The first feature was that there were big and varying increases in output for nearly all aspects of agriculture. This was rarely seen in the past 30 years.

Total output value of agriculture based on the 1970 constant prices reached 162.7 billion yuan in 1980, an increase of 31 billion yuan or 23.5 per cent over 1976. This represented an annual rise of 5.4 per cent, a rate much faster than the average recorded in the five years preceding 1976.

Varying degrees of growth were registered in the output of the major farm products. Except for a few products, they all reached or surpassed the previous record in output. In 1977-80, most of the major products grew at a greater annual rate than in the First, Second, Third or Fourth Five-Year Plan periods.

Total grain output in 1977 was 282.75 million tons, approximating the 1975 or 1976 level. A big surge took place in 1978 when grain output totalled 304.75 million tons. The output was 332.1 million tons in 1979. In the two years, grain output rose by 50 million tons. Weather conditions in 1980 were abnormal, and large areas were hit by natural calamities. Grain output in that year decreased by 4.2 per cent from 1979, but it was still higher than the 1978 figure. In fact, it was the second best since the founding of the People's Republic in 1949.

As late as 1979, cotton output had not yet reached the previous peak of 2.562 million tons in 1973. But cotton production recovered quickly after 1977. Output in 1978 was 2.167 million tons, a 5.8 per cent increase over 1977. In 1979, it reached 2.207 million tons, or 1.8 per cent higher than the year-earlier figure. In 1980, output of cotton in the south dropped slightly because of natural disasters, but there was a great increase in the north. Total cotton output amounted to 2.7065 million tons, surpassing the best performance of the past.

During the past 30 years, the production of oil-bearing crops fluctuated greatly. Total output reached 5.0855 million tons in 1956. But it plummeted to 1.8135 million tons in 1961, and failed to recover for many years. A total of 4.0175 million tons was harvested in 1977, not yet up to the 1952 level

(4.193 million tons). Faster growth came about in 1978 when the output rose by 29.9 per cent over that of 1977 and surpassed the 1956 level, the previous best. Output in 1979 again went up 23.3 per cent over the 1978 amount, reaching 6.4355 million tons. In 1980, the total output reached 7.6905 million tons, an increase of 1.25 million tons or 19.5 per cent over that of 1979. The production of edible oils also grew rapidly. China was an exporter of edible oils in the 1950s, with the maximum exports reaching 300,000 tons a year. For many years afterwards, the production stagnated with the result that in 1976, China began to import edible oils. But production has grown fairly fast in subsequent years. Output in 1978 was 2.07 million tons, outstripping the previous best recorded in the 1950s. Output in 1980 reached 2.75 million tons, an increase of 1.1 million tons or 66.7 per cent over that of 1977.

Sugar-yielding crops did fairly well. Only in 1978 and after did the output increase more rapidly. It was 23.819 million tons in 1978, an increase of 3.5 million tons or 17.8 per cent over the output of 1977. The total output was up 3.3 per cent in 1979. In 1980, it increased by 18.3 per cent to 29.113 million tons.

Similar increases were registered in the output of native and subsidiary products over the years. China used to import jute and ambary hemp, but she switched over to export in 1980 when her own output reached 1.0985 million tons. For two years China exported the product in the order of 150,000 tons per year. Tea production rose steadily after 1977. The 1980 output was 303,500 tons, an increase of 70,000 tons or 30 per cent over the production of 1976. The output of silk-worm cocoons rose by a large margin year after year, beginning in 1977. It was up 3.2 per cent in 1978, 23.1 per cent in 1979, and 17.1 per cent in 1980. Apples are now grown in all provinces north of the Changjiang River. The output in 1979 was 5.5 times the 1965 figure. The production of citrus fruit also expanded fast. State purchase volume in 1979 more

than doubled that of 1965. The output of black edible fungus in 1979 more than trebled that of 1965.

The year 1980 saw the butchering of 198.61 million pigs for meat, a 19.3 per cent increase over the 1976 number, which was 166.5 million. The number of sheep and goats in stock was 158.17 million at the end of 1976; it reached 187.31 million in 1980, up 18.4 per cent. There were also good increases in the output of meat (pork, beef and mutton) after 1978. The 1980 output was 12.055 million tons, up 54.5 per cent over 1976. Purchases of fresh eggs came close to 450,000 tons in 1976 and more than doubled in 1980 to reach 990,000 tons. The long-standing shortage of meat and eggs on the market is eased.

Commune and brigade enterprises developed at a fast pace. At the end of 1980, there were 1.43 million such enterprises in China, or 390,000 more than in 1976. Their total income reached 61.4 billion yuan in 1980, more than double the 1976 figure. Commune and brigade industries produced more than 100 million tons of coal, 70 per cent of the country's total output of building materials, over 80 per cent of the nation's output of small and medium-sized farm tools, as well as large quantities of consumer goods and export commodities. The value of their industrial output accounted for 10.6 per cent of the nation's total. Having become an important component of the rural economy, these enterprises paid a total of 2.56 billion yuan in tax. This showed their important role in the life of the peasants and in the national economy.

During the last few years, a number of teams, brigades, communes, counties and even provinces have set examples in ending their poor and backward state and achieving an all-round development in agricultural production.

Sichuan Province offers an outstanding example. Owing to erroneous guidance in the past, Sichuan's agricultural production stagnated for a long time and even backslid. Previously, the province had shipped large quantities of grain to other parts of the country, but things became so bad in later

years that it had to import grain in large amounts. The situation improved, beginning in 1977; for several consecutive years, agricultural production continued to increase all along the line. Grain output in 1977 was 27.5 million tons, 2.65 million tons more than that in 1976. Despite a serious drought in 1978, a good harvest was brought in, and the output increased by three million tons. The output for 1979 rose to 32 million tons, representing an increase of 7.5 million tons. In three years, the output increased by 30 per cent. The year 1980 witnessed another good harvest of grain crops, the total output reaching 32.64 million tons. There were also varying degrees of growth in the output of oil-bearing crops, silkworm cocoons, tea and the number of butchered pigs. Compared with 1977, the 1980 output rose by 65.7 per cent for oil-bearing crops, 27.6 per cent for tea, and 42.3 per cent for the number of butchered pigs. Another example is Anhui Province, one of the poor provinces in China. For a long time, there was neither any significant growth in agricultural production there nor any evident improvement in the peasants' livelihood, and many rural areas relied on grain sold by the state or state relief for subsistence and production. However, notable changes have taken place in the last two or three years. Take Funan County in Fuyang Prefecture as an example. Situated on the northern bank of the Huaihe River, it was known for its poverty. After Liberation, the state showered aid on the county in the form of manpower, material and money, but to little avail. Poverty and backwardness remained basically unchanged. Between 1950 and 1978, the county provided the state with less than 0.5 kilogrammes of grain per capita each year. Before 1976, the state had to ship in 25 tons of cooking oil into the county a year. In 1980, however, the county delivered and sold to the state 52,040 tons of grain and 7,500 tons of rapeseeds, equivalent to the total state rapeseed tax and purchase quotas for the previous 13 years.

There is no lacking of similar cases one can mention. Historically poor regions, such as parts of Shandong and Henan,

and the provinces of Gansu and Guizhou, all reported marked changes for the better in recent years. Heze Prefecture in Shandong used to depend on state supply for food grain as well as money. From 1955 to 1977, it consumed 1.25 million tons of grain supplied by the state. In this period, state relief funds totalled 200 million yuan or more, state interest-free investment 100 million yuan or more, agricultural tax exemptions 96 million yuan, and state loans 700 million yuan. The payment in arrears amounted to 130 million yuan. In 1977, commune members in this prefecture each received 150 kilograms of food grain and only 34.8 yuan from the collective economy. Approximately 70 per cent of the basic accounting units in this prefecture had no cash to distribute among their members. To assist, the state shipped in 70,000 tons of grain. Peasants in this prefecture had barely enough to eat after one year's hard work. But things began to look up in 1979. In 1980, the prefecture sold 175,000 tons of grain to the state, besides 97,000 tons of cotton and 18,500 tons of oil-bearing crops.

The second characteristic of the rural changes was less arbitrary directions and lost labour in agricultural production and more attention to production costs and economic performances. With the passage of time, production costs constituted a decreasing proportion of the total income. Peasants' real income showed a marked increase as a result of the increased production. In 1976, the total income of the basic accounting units rose by 2.1 per cent over that of 1975, while the expenses increased by 7.5 per cent, resulting in a drop in the net income. Commune members managed to obtain 0.6 per cent more income that year by greatly reducing collective accumulation. Because of the increase of the rural population, per-capita income declined from 63.2 yuan to 62.8 yuan. Things improved a little in 1977, but expenses still rose faster than income. Again public accumulation was cut to ensure a meagre increase in the peasants' income (from 62.8 yuan to 65 yuan). Beginning in 1978, however, the economic gains be-

came notable. Total income in 1979 rose by 26.5 per cent over that in 1977, while expenses were up only 21.3 per cent. On the basis of a 29.1 per cent increase in the net income, the collective accumulation and the commune members' income rose by 37.7 per cent and 30.6 per cent respectively.

In the 20 years between 1957 and 1976, the peasants' income derived from the basic accounting units in China grew slowly, averaging 2.3 per cent per year. After 1977, however, it rose at a much faster rate. Per-capita income from the collective economy reached 83.4 yuan in 1979 and 85.9 yuan in 1980, averaging an annual increase of 8 per cent. The 1980 figure was a 36.8 per cent increase over that of 1976.

In the past few years, the number of poor teams has been reduced sharply, and the number of rich teams has increased rapidly. In 1976, poor teams where per capita income derived from basic accounting units was less than 50 yuan accounted for 41.4 per cent of the total number of teams, and 24.2 per cent of the teams were the poorest as their per capita income was less than 40 yuan. There were, of course, some rich teams where per capita income from the collective was more than 150 yuan. In 1980, the number of poor teams was reduced to 27.4 per cent of the total, and 15.7 per cent were the poorest. The rich teams numbered 458,000, constituting 8.7 per cent of the total number of the basic accounting units.

According to surveys made by the State Statistical Bureau, the peasants' net income after paying the costs of household sideline production and tax averaged 107.2 yuan per capita in 1965. It reached 117.1 yuan in 1977, a rise of 9.9 yuan or 9.1 per cent in 12 years, representing an annual increase of 0.7 per cent. It went up to 160.2 yuan in 1979 and 191.3 yuan in 1980 (108.4 yuan were derived from the collective, 62.5 yuan from household sidelines and 20.4 yuan from other sources.) The 1980 figure represented an increase of 74.2 yuan or 63.4 per cent in three years, or an annual increase of 17.8 per cent. Between 1976 and 1980, income from the collective rose by 38.3 per cent and that from household sidelines by 138 per

cent. This reflected a much faster rise in the peasants' income from household sidelines, thanks to the flexible rural economic policies.

Another indicator of commune members' growing income and living standards is the increase of bank savings. The sum at the end of November 1980 stood at 12.06 billion yuan, more than thrice that of 1976.

The increase in income results in not only a higher standard of living but also changes in the composition of consumption. A survey of 10,282 peasant households in 23 provinces, municipalities and autonomous regions by the State Statistical Bureau shows that each peasant spent 134.5 yuan for consumption in 1979, 18.5 yuan more than in 1978. Of this sum, the proportion spent on food and fuel declined, while that on clothing, utensils, housing, cultural needs and services increased in varying degrees. Food consumption increased in both quantity and quality. Of the food consumed, non-staple foodstuffs increased much faster than staple foodstuffs. There were bigger increases in the amount of cooking oil, meat, poultry, eggs, sugar, wine and other major non-staple foodstuffs the peasants consumed. The amount of cooking oil, meat, poultry, eggs and wine they consumed all rose by more than 10 per cent over the year-earlier figure. The amount of woollen goods, silks, knitting wool and other clothing materials they bought showed marked increases. There was a fast rise in the consumption of high- and medium-grade goods for daily use. The major goods for wear peasants purchased (cotton cloth, cotton, artificial fabrics, woollen fabrics, silks, knitting wool and rubber shoes) rose by a large margin over the year-earlier figures except for cotton cloth which showed a slight drop. Woollen fabrics, silks and artificial fabrics and knitting wool (including woollen jerseys and trousers) rose by 140 per cent, 150 per cent and more than 75 per cent respectively. These figures bespeak the qualitative improvement of peasants' wear. Of the goods for daily use, the purchase of bicycles, sewing machines, radios and watches and clocks rose

rapidly. Among the peasant households under survey, every 10 households in 1979 owned on the average 3.6 bicycles, 2.3 sewing machines, 2.6 radio sets, and 5.5 watches and clocks, each of them representing a sizable increase over the year-earlier figure. Every household added an average of 0.22 new rooms in 1979 to bring the number of rooms per capita to 3.8.

III. PROBLEMS FACED IN CHINA'S AGRICULTURE

The notable recovery and expansion of China's agriculture through several years' readjustment testifies to the correctness of the Party's new agricultural policies that correspond well with China's actual conditions. However, owing to its weak foundation and the long-standing mistakes in the guidelines of the past, our agricultural production is still low, and in its course of development it still faces many difficulties and problems which would not be solved in a few years. It would take even more time to realize the historic task of agricultural modernization.

(1) There is the problem of low productivity. In 1979, China's labour force engaged in agriculture numbered approximately 300 million. Each labourer produced an annual average of 1.1 tons of grain, 7.5 kilogrammes of cotton, 20 kilogrammes of oil-bearing crops, 80 kilogrammes of sugar-yielding crops, 35 kilogrammes of meat. This average was far below that of the advanced countries, lower than China's own historical best. For more than 20 years, there was virtually no progress in labour productivity. The enormous waste of labour power presents agriculture with a serious problem. On the other hand, the rate of marketed farm produce is low. Purchases of farm products in 1979 were valued at almost 71.4 billion yuan, constituting only 38 per cent of the total agricultural output value for that year. State grain

tax and purchases came to 65 million tons, or one-fifth of that year's total output. The commodity rate was only 15 per cent, after the grain resold to the grain-deficient villages was duly deducted. All this shows that ours is still a self-sufficient natural economy, as far as agriculture is concerned.

(2) There is the inadequacy of production conditions and technical equipment. Most of our peasants do work by hand. On the whole, low-yielding farming areas occupy a greater proportion of the cultivated acreage, while farming areas with high and stable yields and pastoral areas constitute only a small percentage. In 1979, farmland with effective irrigation came to 670 million *mu*, or 45.2 per cent of the nation's total cultivated acreage, and farmland providing stable yields despite drought and waterlogging amounted to 340 million *mu*, or 22.8 per cent of the total cultivated acreage. A greater part of our farmland gives only low and unstable yields. About one-third of China's farmland is saline or alkaline, low-lying, acid-soil, water-submerged, or seriously eroded, giving very low yields which average 35 to 50 kilograms of grain per *mu*. Production conditions in the arid regions in northwestern and northern China are equally poor. Per-*mu* yield is just 50 to 100 kilograms in Ningxia, Gansu, Qinghai and Inner Mongolia.

A clear manifestation of the inadequate production conditions is the poor ability to combat natural disasters. For 30 years, an average of 420 million *mu* of farmland suffered from floods, drought, plant diseases, insect pests, cold waves, hailstorms, typhoons, searing winds and other calamities each year, and an average of 170 million *mu* of land experienced either a drop in output or total crop failure. While water conservancy works built over the years help reduce the flooded area, the long-time devastation of forests in many parts of the country leads to more areas subjected to drought. As a result, there is an increase instead of a decrease in the total area affected by natural calamities. During each of the last five years, anywhere between 600 and 700 million *mu* of farmland was

hit by natural disasters, resulting in drastic downs in farm output. In 1980, China suffered waterlogging in the south and drought in the north, which, together with other adversities, affected 700 million *mu* of land and caused a drop in grain output. For years, our cash crops and fishery production were not stable either. In the pastoral areas, large numbers of animals died each winter-spring because of inadequate investment in capital construction, poor management and serious shortage of water, grass, fodder and pens and folds.

(3) Economic results in agricultural production are comparatively low. During the past 30 years, large amounts of labour power and funds were invested in the construction of water conservancy projects, in the improvement of the soil and in the installment of new equipment. Due to poor management, the economic results were low. Statistics show that between 1957 and 1979 total horsepower of agricultural machinery increased 110 times, per-*mu* consumption of electricity rose 189 times, application of chemical fertilizers per *mu* grew 29 times and fixed assets increased 5.48 times (between 1957 and 1978). Yet, there was no increase in the net output value (based on comparable prices) per agricultural labourer in this period. In fact, there was a decline in the gains obtained by the utilization of agricultural fixed assets among the rural communes. Total income realized from the use of one yuan's worth of fixed assets in a basic accounting unit was 2.37 yuan in 1957; it dropped to 1.29 yuan in 1978. Net income realized from the use of one-yuan expenditure in a basic accounting unit also declined from 2.78 yuan in 1957 to 1.93 yuan in 1979, a 30 per cent decrease. The year 1979 saw only a slight increase over 1976 when the income was 1.83 yuan. Investment in water conservancy projects yields poor economic results too. There are a number of reasons for this. First of all, production facilities and technical equipment are far from complete. This explains why large numbers of water conservancy projects and irrigation and drainage systems fail to yield maximum benefits. Many projects in the country were left in-

complete for many years. Some large reservoirs built in 1958 during the "great leap forward" period are yet to be completed. Statistics show that many large and medium-sized water conservancy works and many pump wells sunk in northern China fall short of the designed capacity in an area equivalent to one-fourth of China's irrigated land. Water utilization coefficient at most of the irrigation systems is less than 50 per cent. Farm machines lack matching implements, main machines lack auxiliary parts, and cultivating machines lack necessary transportation means. The ratio between the tractors and the auxiliary farm implements in the country is 1:2.14, whereas the ratio in a number of fairly mechanized state farms is 1:6-8. Most of China's farming regions have a high double-cropping index and many forms of inter-cropping, but there is a serious shortage of farm machines and implements suited for different farming methods. Owing to the lack of lorries for rural use, the tractors are used more for transportation than for cultivation. At present, the utilization rate of our farm machinery is very low, about 70 per cent. Approximately 100,000 to 200,000 tractors and 40 to 50 million h.p. of machinery are not used. Chemical fertilizers are not available in full variety or in adequate proportion. The ratio between nitrogenous fertilizer, phosphorous fertilizer and potassium fertilizer produced in 1979 was 1:0.28:0.002. The supply of potassium and phosphorous fertilizers and trace elements was inadequate, and the ratio was irrational. With some minor readjustment, the use of chemical fertilizers can become far more effective in increasing farm output. There is, of course, poor management, plus astonishing waste in capital construction.

(4) Imbalances within agriculture itself have not yet been rectified. A few years' readjustment has led to some initial improvement in the structure of agriculture, and there is still much to do before a rational production setup can be established. The relationship between farming and animal husbandry has been so far irrational, and the latter remains a

weak link. During the last two or three years, there has been some development of animal husbandry, but the growth is still slow. No conspicuous changes have taken place in the farming-animal husbandry structure. The intramural relationship among different branches of the animal husbandry industry is irrational too. The raising of sheep, cattle, rabbit and other herbivorous animals leaves much to be desired. The imbalance between farming and forestry has not yet been corrected. Indiscriminate felling in some areas is getting worse instead of getting better. Agriculture can hardly extricate itself from the vicious circle if the serious imbalances remain unsettled.

(5) The ability to accumulate capital among communes, brigades and teams is weak and the peasants' income is low. At present, the fixed assets in China's rural areas, at the levels of communes, brigades and teams, total some 80 billion yuan, averaging 100 yuan a person in agriculture, or 50 yuan per *mu* of cultivated land. In 1979, public accumulation funds on the three levels stood at 8.71 billion yuan, averaging 1,700 yuan per basic accounting unit, 5.8 yuan per *mu* of land, or 29 yuan per labourer. It is next to impossible to modernize agriculture with a rate of accumulation of this kind. A considerable number of communes, brigades and teams in the high and cold mountains in Guizhou and Yunnan, in the low-lying and saline regions on the Huanghuai Plain, and in the seriously eroded areas in Gansu, northern Shaanxi and western Shanxi have to depend on state aid or relief to keep production going. Communes, brigades and teams in the intermediate regions are often in need of adequate funding. Peasants' income derived from the collective economy did grow much in recent years, but the general level is still very low. According to the 1979 statistics, the peasants received an average of 83.4 yuan per person from the collective economy, but the figure varied greatly from place to place. As far as the basic accounting units were concerned, the peasants with a per-capita income below 40 yuan constituted 16.1 per cent; those at the 41-50

yuan level, 11.4 per cent; those at the 51-60 yuan level, 11.6 per cent; those at the 61-100 yuan level, 35.7 per cent; those at the 101-150 yuan level, 18 per cent; and those above 150 yuan, 7.2 per cent. The units with a per-capita income below 60 yuan totalled 39.1 per cent. The peasants received an average of 232.5 kilogrammes of food grain in 1979. Owing to the shortage of non-staple foodstuffs, the overall consumption level was still low.

(6) The peasants' low level of culture, technical know-how and management skill hinders production. Surveys show that of the labour force in the countryside 26.4 per cent are illiterate, 18.3 per cent are just beginning to learn to read and write, 31.5 per cent have primary education, 23.7 per cent receive secondary education, and only 0.1 per cent are at the college level. There is an acute shortage of scientific and technical personnel in the rural areas. In Jiangxi Province, people of this kind number only 5,000 at the provincial, prefectural, county and commune levels. There are less than two scientists and technicians for every 10,000 rural people. More than 40 per cent of the province's communes do not have their own agro-technicians. Even Jiangsu Province where education is comparatively developed boasts only a little over 13,000 agricultural scientists and technicians, averaging 2.5 for every 10,000 of the rural population. The low cultural and technical level of the peasants hinders the rapid popularization of advanced technology. And the poor management of the collectively-owned economic units results in enormous waste in manpower and materials.

Readjustment is the central task for our national economy at present. It means to bring about harmonious relations among the major sectors of the economy and rationalize the setup of production. At present and for the immediate future, we will have to rely mainly on the correct policies, as well as science and technology, to boost agriculture. On the one hand, our national economy still faces many difficulties and we cannot substantially increase investment in agriculture. On

the other, long-time poor management leads to low economic results. Only by carrying out the correct policies, by raising the scientific level, and by improving the economic results can we generate the enthusiasm of the 800 million peasants, make maximum use of all the resources and tap the existing production potentialities. Practice over the past few years testifies to the presence of great potentialities that have not yet been explored.

We must conscientiously carry out the rural and agricultural policies formulated by the Party and the government. It is true that much has been done in various localities to readjust the agricultural policies in the past two years. On the other hand, the influence of the "Left" errors on agriculture is so long and extensive that their eradication still requires a lot of effort.

While making sure that our agricultural principles and policies are correct, we should devote ourselves to modernizing Chinese agriculture actively and steadily. We should promote agricultural education and research energetically, popularize new scientific results and establish a scientific management system. We should also mechanize agriculture step by step and in a selective way, gradually arm our agriculture with modern equipment and technology, and turn ours into a modernized, intensive and highly efficient agriculture as early as possible.

Chapter V

INDUSTRY AND TRANSPORT

by Lin Senmu, Zhou Shulian
and Qi Mingchen

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CHINA accomplished much in industry, transport and communications during the four years between 1977 and 1980. Her main achievements and major policies in these fields, as well as her present problems and possible solutions are discussed in this article.

I. MAIN ACHIEVEMENTS IN FOUR YEARS

1. INDUSTRIAL PRODUCTION GROWING FAIRLY RAPIDLY

China's industrial production stagnated and even backslid during the "cultural revolution". She experienced a negative growth rate in both 1967 and 1968 and a meagre growth rate in 1974 and 1976 — 0.3 per cent and 1.3 per cent respectively. Things began to change for the better in 1977. The growth of industrial production from 1977 to 1980 was as follows (with the total industrial output value in the preceding year as 100):

| 1977 | 1978 | 1979 | 1980 |
|-------|-------|-------|-------|
| 114.3 | 113.5 | 108.5 | 108.7 |

Industrial production was still recovering in 1977 and 1978, the growth rate in both years exceeding 10 per cent. The

rapid recovery can be more graphically shown in the following three examples:

In terms of localities: 12 of the 29 provinces, municipalities and autonomous regions in the country (not including Taiwan) reported drops in industrial production in 1976. In 1977, only one of these localities reported decreased production while 30 to 40 per cent increases were registered in the provinces of Henan, Guizhou, Yunnan, Sichuan, Zhejiang and Jiangxi where industrial production had suffered greatly. In 1978, industry in all 29 provinces, municipalities and autonomous regions showed growth over the previous year.

In terms of ownership: during the "cultural revolution", factories owned by the whole people sustained the heaviest damage. China's total industrial output value in 1976 was slightly above 1975's, but the output of the industries owned by the whole people decreased. These industries registered growth in 1977 and 1978. Moreover, they grew faster in 1978 than those industries under collective ownership. The rate of growth for these two types of industries in 1976-78 was as follows (in percentage):

| | 1976 | 1977 | 1978 |
|--------------------------------------|------|------|------|
| Industries owned by the whole people | -1.1 | 12.7 | 14.4 |
| Industries owned by collectives | 13.5 | 21.1 | 9.6 |

In terms of major products: in 1976 the output declined in 17 of the 26 major industrial products. In 1977, only two

products failed to reach the 1976 level, while the other 24 all surpassed it. In 1978, again two products did not match the preceding year's level; but the output of machine tools, one of the two, was curtailed according to plan because of excessive supply. In 1977, the output of 21 major products surpassed the level in their previous best production years. They were coal, crude oil, electricity, pig iron, timber, cement, sulphuric acid, caustic soda, chemical fertilizer for farm use, tractors, walking tractors, machine tools, cotton yarn, cotton cloth, chemical fibres, machine-made paper and paperboard, bicycles, sewing machines, wrist watches, cigarettes and sugar. In 1978, the output of five others — rolled steel, steel, iron ore, soda ash and motor vehicles — also beat their previous records. That year, the output of coal exceeded 600 million tons, crude oil 100 million tons, electricity 250 billion kwh, and steel 30 million tons.

Beginning in 1979, China's economy entered a period of readjustment. The growth rate of industry in 1979 and 1980 slowed from the two previous years to 8.5 per cent and 8.7 per cent respectively.

2. PRIORITY GIVEN TO LIGHT INDUSTRY

A long-term one-sided emphasis on heavy industry led to an imbalance between light and heavy industries and exerted an adverse impact on the national economy as a whole. In 1979, light industry began to develop faster than heavy industry, marking a good beginning in readjusting the relationship between light and heavy industries. Following are the growth rates of light and heavy industries in 1977-80 and their proportional changes:

| | 1977 | 1978 | 1979 | 1980 |
|-----------------------------------|------|------|------|------|
| Growth rate of light industry (%) | 14.3 | 10.8 | 9.6 | 18.4 |
| Growth rate of heavy industry (%) | 14.3 | 15.6 | 7.7 | 1.4 |
| Proportion of light industry (%) | 43.7 | 42.7 | 43.1 | 46.9 |
| Proportion of heavy industry (%) | 56.3 | 57.3 | 56.9 | 53.1 |

In 1978, light industry occupied a greater proportion than heavy industry in only 6 of the 29 provinces, municipalities and autonomous regions. In 1980, the number grew to 10. In China's biggest industrial centre, Shanghai, the proportion of light industry in the total industrial output value rose from 49.3 per cent in 1978 to 52.6 per cent in 1980. Similarly, the proportion in Tianjin grew from 49.5 per cent in 1978 to 53.2 per cent in 1980. Beijing, where heavy industry always holds the lion's share, also saw an increasing proportion of light industry, up to 36 per cent in 1979 and 39.1 per cent in 1980.

The rising share of light industry in 1979 and 1980 signaled a development towards a more rational ratio between light and heavy industries. It differed in significance from the increasing proportion of light industry in some earlier periods. Eight previous years had seen a rising share of light industry over the preceding year. They were: 1961, 1962, 1965, 1967, 1968, 1973, 1974 and 1976. A general rule was: when industrial production grew, the proportion of light industry fell; when industrial production declined, the proportion rose. These increases were of little practical significance. But the growing proportion of light industry in 1979 and 1980 was attained at a time when industry as a whole was making steady ad-

vances; it bespoke a genuine and fairly big increase in light industry.

The output and growth rate of major consumer goods in 1979 and 1980 are:

| | 1979 output | Growth rate (%) | 1980 output | Growth rate (%) |
|---|----------------|--------------------|----------------|--------------------|
| Bicycles (million) | 10.09 | 18.1 | 13.02 | 29.0 |
| Sewing machines (million) | 5.87 | 20.8 | 7.68 | 30.8 |
| Wrist watches (million) | 17.07 | 26.4 | 22.16 | 29.8 |
| TV sets (million) | 1.329 | 157.1 | 2.492 | 87.5 |
| Radios (million) | 13.81 | 18.2 | 30.04 | 117.5 |
| Tape Recorders (thousand) | 165 | 251.1 | 743 | 350.3 |
| Domestic refrigerators (thousand) | 31.768 | 91.7 | 49.034 | 54.4 |
| Domestic Washing ma- chines (Thousand) | 18.109 | 4,850 | 245.331 | 1,250 |
| Electric fans (million) | 2.33 | 68.8 | 7.237 | 210.5 |
| Cameras (thousand) | 238 | 33.0 | 373 | 56.7 |
| Electric light Bulbs (million) | 850 | 11.8 | 950 | 11.8 |
| Cotton Yarn (million tons) | 2.63 | 10.5 | 2.93 | 11.4 |
| Cotton cloth (billion metres) | 12.15 | 10.2 | 13.47 | 10.9 |
| Chemical fibres (thousand tons) | 326 | 14.4 | 450 | 38.0 |

| | | | | |
|--|--------|------|--------|------|
| Woollen fabrics (million metres) | 90 | 1.5 | 101 | 12.2 |
| Knitting wool (thousand tons) | 44.4 | 17.5 | 57.3 | 29.0 |
| Silk (thousand tons) | 29.7 | 0.2 | 35.4 | 19.2 |
| Silk fabrics (million metres) | 663 | 8.7 | 759 | 14.5 |
| Leather shoes (million pairs) | 116.08 | 15.5 | 157.45 | 35.6 |
| Edible vegetable oils (million tons) | 2.1352 | 20.8 | 2.2154 | 3.8 |
| Sugar (million tons) | 2.5 | 10.1 | 2.57 | 2.8 |
| Powdered milk (thousand tons) | 29.019 | 29.8 | 37.715 | 30.0 |
| Beer (thousand tons) | 515.8 | 27.7 | 688 | 33.3 |
| Cigarettes (million cases) | 13.026 | 10.2 | 15.2 | 16.7 |
| Machine-made paper and paperboard (million tons) | 4.93 | 12.3 | 5.35 | 8.5 |
| Soap (thousand tons) | 752.6 | 26.2 | 851.9 | 13.2 |
| Synthetic detergents (thousand tons) | 397 | 22.5 | 393 | -1.0 |

3. ENERGY INDUSTRY OUTSTRIPPING PRODUCTION QUOTAS

The output of coal, crude oil and electricity and the production of primary energy resources in 1977-80 are:

| | Coal (million tons) | Crude oil (million tons) | Electricity (billion kwh) | Total amount of primary energy resources (based on standard coal in million tons) |
|-----------------|---------------------------|-----------------------------|------------------------------|--|
| 1977 output | 550 | 93.64 | 223.4 | 563.96 |
| Growth rate (%) | 13.9 | 7.4 | 10.0 | 12.0 |
| 1978 output | 618 | 104.05 | 256.6 | 627.7 |
| Growth rate (%) | 12.4 | 11.1 | 14.8 | 11.3 |
| 1979 output | 635 | 106.15 | 282 | 645.62 |
| Growth rate (%) | 2.8 | 2.0 | 9.9 | 2.9 |
| 1980 output | 620 | 105.95 | 300.6 | 637.21 |
| Growth rate (%) | -2.4 | -0.2 | 6.6 | -1.3 |

The above indicates fairly rapid growth in energy production in 1977 and 1978, with an annual increase of more than 50 million tons of coal. But the growth slowed down in 1979, and the output of coal and crude oil in 1980 were both below the previous year's level. This was due to the cut-backs in planned production quotas with a view to adjusting the ratio between cutting and tunnelling in the coal mines and to adjusting the ratio between extraction and reserves in the oil fields. As a matter of fact, the production quotas for coal, crude oil, natural gas and electricity in 1979 and 1980 were all overfulfilled. The performance is shown in the following table (actual output in percentage of planned quotas):

| | Coal | Crude oil | Natural gas | Electricity | hydropower |
|------|-------|-----------|-------------|-------------|------------|
| 1979 | 104.7 | 100.1 | 103.7 | 102.5 | 109 |
| 1980 | 103.9 | 100.3 | 104.2 | 103.7 | 125.4 |

Coal constitutes about 70 per cent of the primary energy resources in China. For quite a long time in the past, so much emphasis was put on coal cutting that tunnelling came to lag behind cutting. From 1979 on, especially in 1980, coal mines gave priority to readjusting the ratio between cutting and tunnelling. The major collieries in Heilongjiang Province in 1980 put all their new recruits into tunnelling teams. The 1980 plan of the Ministry of Coal Industry for readjusting the cutting-tunnelling ratio in 26 major collieries was overfulfilled. In 1979, total tunnelling footage in the coal mines was a bit short of the 1978 figure, but it increased by a big margin in 1980, exceeding the 1978 level by 12.3 per cent and the yearly plan by 13 per cent, chalking up an all-time high. A second

priority in the coal industry was safety in production. Deaths in mine accidents in 1980 dropped by 20.59 per cent and those in major collieries by 32.31 per cent as compared with one year earlier, and were the lowest in history. Geological prospecting of new coal fields was accelerated. The prospecting was intensified in the major coal mining centres in Shanxi, Henan, Heilongjiang, Anhui, Inner Mongolia and Shandong while it was curtailed in the areas south of the Changjiang River and other less promising areas. These major coal producing centres in 1980 reported 3.6 billion tons of coal reserves immediately available for mine construction, accounting for 80 per cent of the nation's total. In all, another 24.8 billion tons of coal deposits were verified across the country in 1980, bringing the total verified deposits to 642.5 billion tons.

From May 1979 to the end of 1980, 110,000 kilometres of seismic survey lines were completed in the South China Sea and the southern waters of the Yellow Sea, covering a total of 430,000 square kilometres. A host of collected data shows geological formations that indicate favourable conditions for the occurrence, storage and enclosure of oil in the above-mentioned continental shelf. In 1980, contracts were signed with Japanese and French oil companies for the co-operative exploration and development in the waters of the Bohai Sea and the Beibu Gulf.

The output of electricity increased steadily in the four years from 1977 to 1980. The growth rate slowed down a bit in 1979 and 1980, but the growth of hydropower output kept up a considerable pace, being 12.3 per cent in 1979 and 16.1 per cent in 1980, mainly because of better management and more rational use of water power and economizing on consumption of water. In 1980, some 26 major hydropower stations across the country generated 1.6 billion more kwh of electricity than the year before. For the first time since the founding of our People's Republic, in 1979 the investment in hydropower generation exceeded that in thermal power gen-

eration, the ratio between the two being 1.055:1. The capacity of the added hydropower generating sets increased year after year between 1977 and 1979. The power industry also strengthened the construction of power transmission and transforming projects, putting an end to the situation in which power transmission and transforming lagged behind power generating. The proportion of the investment in power transmission and transforming to the total investment for the power industry was: 15.4 per cent in 1977, 13.2 per cent in 1978, 17.2 per cent in 1979, and 22.3 per cent in 1980. In 1979, a total of 6,356.69 kilometres of power lines of 110 kv and above and 7.0652 million kva of transforming equipment of 110 kv and above were completed, up 55 per cent and 25.6 per cent over 1978 respectively. Work on two 500,000 volt ultra-high-tension power transmission lines, one linking Pingdingshan and Wuhan, the other tying Yuanbaoshan to Liaoyang and Haicheng, began at the end of 1979. The former line was scheduled for completion in 1981. This would be the highest voltage power line in China, the previous being 330,000 volts.

4. MACHINE-BUILDING INDUSTRY CHANGING ITS ORIENTATION

The machine-building industry began to change from mainly serving heavy industry to serving agriculture, light industry and urban construction and from mainly providing equipment for new construction projects to providing equipment for the renovation of existing plants. The production of goods which were in excess of immediate demand was universally curtailed and that of goods in great demand was increased. Plants were actively exploring new markets for their products and became more adaptable to the needs of the various sectors of the society. They tried to serve the read-

justment and development of the various branches of the economy.

The output of industrial equipment was reduced by 5.9 per cent in 1979 and 6.5 per cent in 1980 as compared with the previous year, whereas that of special equipment for textile and other light industries went up 45.3 per cent in 1979 and 25.5 per cent in 1980. The annual rates of growth in the two years were 14.3 per cent and 2.8 per cent for transport facilities and 49.4 per cent and 11.4 per cent for construction and road building machinery.

The output of goods manufactured by plants under the First Ministry of Machine-Building Industry for light industry in 1980 tripled the 1979 figure, whereas that of huge machine tools for heavy industry dropped by 27 per cent, metallurgical equipment 47 per cent, and mining equipment 42 per cent.

All this testifies to the positive changes in the structure of the machine-building industry.

Many defence enterprises in 1979 and 1980 undertook production of goods for civilian use and turned out durable consumer goods that were in great demand. Defence industrial plants in Qinghai Province in 1980 manufactured washing machines, radios, iron-and-wood furniture and 30 other kinds of products for civilian use. These products accounted for 54 per cent of the total output value of these plants. The value of goods for civilian use produced by the defence enterprises across the country increased by a big margin and the proportion of such goods in the total output value of the defence enterprises rose from 11.5 per cent in 1979 to 21.6 per cent in 1980.

The output value of the plants under the First Ministry of Machine-Building Industry in 1979 rose by 11 per cent over 1978, reaching an all-time high. Although the 1980 production quotas set for them by the state were far below the 1979 level, their actual output value that year still approached the 1979

figure. This was attributed to the effort to expand exports in addition to exploring new domestic markets. The export of equipment in 1980 rose by 60.6 per cent over 1979.

5. METALLURGICAL AND CHEMICAL INDUSTRIES MAKING NEW PROGRESS

The output of major products of the iron and steel industry between 1977 and 1980 was as follows (in million tons):

| | Rolled steel | Steel | Pig iron | Iron ore |
|------|--------------|-------|----------|----------|
| 1977 | 16.33 | 23.74 | 25.05 | 93.84 |
| 1978 | 22.08 | 31.78 | 34.79 | 117.79 |
| 1979 | 24.97 | 34.48 | 36.73 | 118.76 |
| 1980 | 27.16 | 37.12 | 38.02 | 112.59 |

The internal structure of the metallurgical industry was improved in the course of readjustment. On the whole, there was a surplus of metallurgical products, but the small steel shapes suited for agriculture, light industry and the building industry were in short supply — a situation which had existed for a long period. The output of these products grew by a big margin while the readjustment went on. The output of fine steel sections and silicon steel sheets was reduced in 1980 because their supply surpassed demand. The production of huge steel sections and other excess goods was cut in 1979 and 1980.

| | Small steel shapes | Wires | Sheets | Welded pipes | Silicon sheets | Fine steel sections | Total amount of rolled steel |
|------|--------------------|-------|--------|--------------|----------------|---------------------|------------------------------|
| 1977 | 18.4 | 10.3 | 15.1 | -5.5 | -2.7 | 0.4 | 11.4 |
| 1978 | 38.0 | 35.2 | 37.2 | 32.6 | 35.7 | 27.9 | 35.2 |
| 1979 | 27.1 | 24.0 | 27.3 | 2.8 | 22.9 | 13.8 | 13.1 |
| 1980 | 26.5 | 22.8 | 43.4 | 35.4 | -31.3 | -21.1 | 8.8 |

(Annual growth rate in percentage)

The output of small steel shapes, wires, sheets and welded pipes, all in short supply, rose in 1979 by 2.34 million tons over 1978, and again increased in 1980 by another 3.43 million tons. Their proportion in the total amount of rolled steel grew from 44.1 per cent in 1978 to 48.4 per cent in 1979 and further to 57.1 per cent in 1980. A number of small iron works and mines that consumed a large amount of energy and operated at a loss were ordered to shut down. In 1979 and 1980, more than 200 small iron and steel mills, or half of the total number of such mills in the country, were temporarily or permanently shut down, merged with others or changed over to the manufacture of other products.

But the metallurgical industry in these two years did not take as many readjustment steps as it needed. For instance, the output of rolled steel, steel and pig iron was not reduced according to plan and production of these goods consumed a disproportionate amount of energy and power.

The chemical industry was one of the fastest growing industries. Its production grew at an average annual rate of 18 per cent between 1953 and 1976, second only to the petroleum industry. But during the ten-year turmoil the chemical industry fluctuated, and its output declined in four of the ten years. For instance, its output value in 1976 was 1.2 per cent

less than in 1975. Between 1977 and 1980, the output of its major products, especially items in short supply, grew considerably, as shown in the following table:

| | 1977 | 1978 | 1979 | 1980 |
|------------------------------------|--------|--------|--------|--------|
| Sulphuric acid (million tons) | 5.375 | 6.61 | 7.00 | 7.64 |
| Soda ash (million tons) | 1.677 | 1.329 | 1.486 | 1.613 |
| Caustic soda (million tons) | 1.386 | 1.64 | 1.826 | 1.923 |
| Synthetic ammonia (million tons) | 8.704 | 11.835 | 13.482 | 14.974 |
| Chemical fertilizer (million tons) | 7.238 | 8.693 | 10.654 | 12.32 |
| Insecticides (thousand tons) | 457 | 533 | 537 | 537 |
| Ethylene (thousand tons) | 302.7 | 380.3 | 435 | 490 |
| Plastics (thousand tons) | 524 | 679 | 793 | 898 |
| Pharmaceuticals (thousand tons) | 35.2 | 40.7 | 41.7 | 40.1 |
| Calcium carbide (million tons) | 0.9893 | 1.2381 | 1.407 | 1.52 |
| Paints (thousand tons) | 284.8 | 343.6 | 426.4 | 480.1 |

In those four years, eight imported plants were commissioned, each with a designed annual capacity of 300,000 tons of synthetic ammonia. A China-designed plant of the same capacity was built and sent into trial production at the end of 1979. As a result, the output of synthetic ammonia soared at an annual rate of 24.8 per cent in the four years, and that of chemical fertilizer 23.8 per cent. These years saw a big expansion of the petrochemical industry, which uses petroleum and natural gas as raw materials to turn out chemical fertilizer, synthetic ammonia, synthetic rubber, synthetic fibres, medicines, dyestuffs and other new products. In 1980 the output of

synthetic ammonia, chemical fertilizer, synthetic rubber, plastics and ethylene all multiplied compared with 1976. In the early 1960s, China had only one petrochemical enterprise, the Synthetic Rubber Plant under the Lanzhou Chemical Industry Company. The number of key petrochemical works in the country jumped to 28 in 1979. The output value of the Yanshan General Petrochemical Corporation in Beijing that year came to more than one-ninth of the city's total industrial output value, and its profits and taxes close to one-fifth of the city's total. The output of soda ash and caustic soda, the basic chemicals in short supply, rose at an average annual rate of 9.6 per cent and 12.2 per cent respectively in 1977-80 by tapping the potential of the existing plants.

Small chemical fertilizer plants were consolidated. A number were temporarily or permanently closed, merged with others or changed over to other lines of production in 1979 and 1980 because they were using too much energy and were operating at big deficits.

6. EMPHASIS ON THE BUILDING MATERIALS INDUSTRY

Although the building materials industry had been a weak member of China's heavy industries, it made rapid progress between 1977 and 1980 as more emphasis was placed on its development. The proportion of this industry in the total industrial output value climbed from 3.4 per cent in 1976 to 3.6 per cent in 1980.

State investments in the building materials industry increased considerably. The 1978 investments reached 860 million yuan, surpassing the previous record of 827 million yuan in 1960. They rose to 1,196 million in 1979 and 1,147 million in 1980, up nearly 40 per cent over the 1978 figure. The 1980 output of cement and plate glass increased by 71 per cent and 91.1 per cent over 1976 respectively, representing an annual growth of 14.4 per cent and 17.6 per cent.

| | Cement (million tons) | Plate glass (million standard cases) |
|------|-----------------------|--|
| 1977 | 55.65 | 16.97 |
| 1978 | 65.24 | 20.04 |
| 1979 | 73.9 | 23.3 |
| 1980 | 79.86 | 27.71 |

In 1979, the building materials industry also witnessed the development of new materials — from research and trial manufacture to on-line production. Many cities such as Shijiazhuang, Suzhou, Harbin, Shenyang, Wuhan and Wuxi came to boast a considerable production capacity. A major new materials centre will soon be completed in Beijing, with imported production lines that will manufacture enough materials annually to construct one million square metres of housing. By the end of 1980, the country had 38 production lines turning out 36 kinds of new building materials. Thirty-three aerated concrete works have been set up in various places with a combined annual capacity of two million square metres. So far, buildings with a total of more than 500,000 square metres of floor space have been erected with these new building materials.

In 1980, the building materials industry adjusted its investments, and gave first priority to the on-going construction of mines and to tapping the potential of existing plants through renovation and transformation. Preference was also given to the production of glass, ceramics and other badly needed goods as well as to scientific research, education, geological, designing and other infrastructure departments. Thus, the internal proportions of the building materials industry have improved.

The investment in capital construction in 1981 was drastically cut compared with 1980. But the supply of plate glass

and other building materials still fell short of the demand because the proportion of investment in non-productive capital construction, especially housing, increased and the rural areas experienced a construction boom. So, it remains an important task to further expand our building materials industry.

7. THE DEVELOPMENT OF TRANSPORT AND COMMUNICATION SERVICES

Railways rank first among China's means of transportation by moving 45 per cent of the total volume of freight. In the ten-year turmoil, the Beijing-Guangzhou, Longhai, Tianjin-Pukou and other trunk lines were almost blocked from time to time. As a result of shake-ups, the daily rate of freight wagon loading began to pick up in March 1977, and surpassed the previous best in April, with an average of 55,082 wagons a day. This contributed much to the quick recovery of China's industrial production in March and April 1977.

In 1978, the volume of goods moved by rail topped one billion tons, and the average number of wagons loaded every day exceeded 60,000, both all-time highs. Further increases were registered in 1979.

Undue emphasis was put on the extension of rail lines after 1965. As a result, the investment in updating existing railways was cut to make room for the hasty construction of new lines. The railway carrying capacity in the areas east of the Beijing-Guangzhou Railway, where old rail lines are concentrated and a huge volume of goods are shipped, was increasingly incapable of meeting the needs of the growing national economy. This situation began to change in 1979 when the investment in updating old lines was a little more than that in the construction of new lines. And it exceeded the latter by 50 per cent in 1980. More than half the necessary double-tracking was completed on the Eastern Longhai Railway and the Shijiazhuang-Dezhou Railway, both to the east of the Beijing-Guangzhou

Line, and double tracking started on the Qingdao-Jinan Railway. With regard to the double-tracking of the portion between Zhengzhou and Xuzhou along the Eastern Longhai Railway, the Zhengzhou-Shangqiu section was completed and opened to traffic in 1979, and the Shangqiu-Xuzhou section was also completed in December 1980 after six months of work. A total of 687.6 kilometres of new double-track rail lines were opened to traffic between 1977 and 1980, a record since the 1960s. New rail lines commissioned in this period totalled 594 kilometres, including the Taiyuan-Jiaozuo Railway which moves Shanxi's coal.

Beginning in 1973, harbour construction was accelerated, with a large number of berths built and handling capacity expanded. More progress was reported in 1977-80 when the handling capacity increased by 25.4 million tons. By the end of 1980, China boasted 330 working berths in her coastal ports, 139 in the 10,000-ton class. The time a foreign ship spends in port was reduced from 11.7 days in 1976 to 8.2 days in 1979 and 7.7 days in 1980. On the whole, the number of sea port berths is still insufficient.

The following table shows the recent changes in the kilometres travelled on different transportation routes:

| | 1977 | 1980 |
|--|--------|--------------------|
| Railway ¹ (thousand km) | 49.463 | 51.9 |
| Highway (thousand km) | 855.6 | 875.8 ² |
| Inland river (thousand km) | 137.4 | 107.8 ² |
| Domestic air routes (thousand km) | 91.2 | 110.5 |
| International air routes (thousand km) | 40.9 | 81.2 |

The freight volume between 1977 and 1980 was as follows:

| | 1977 | 1978 | 1979 | 1980 |
|---------------------------------------|---------|---------|---------|----------|
| Total freight volume (million tons) | 2239.15 | 2489.46 | 2480.28 | 2405.06 |
| By rail ¹ | 927.11 | 1074.92 | 1094.95 | 1,085.84 |
| By road ³ | 808.33 | 851.82 | 815.56 | 760.17 |
| By water | 388.61 | 432.92 | 432.29 | 426.76 |
| By air | 0.053 | 0.064 | 0.08 | 0.089 |
| By pipeline | 89.07 | 103.47 | 113.42 | 105.25 |
| Volume handled at major coastal ports | 159.69 | 198.34 | 212.57 | 217.31 |

Notes:

1. Figures for railway mileage and volume of goods moved by rail do not include the locally-run rail lines, but the total freight volume include them.

2. Figures for the kilometres of highway and inland river travelled in 1980 are based on an investigation made at the end of October 1979.

3. Volume of goods transported by non-communication units is not included.

8. COMPLETION AND COMMISSION OF OVER 400 BIG AND MEDIUM-SIZED PROJECTS

Four hundred and thirty big and medium-sized projects were completed and commissioned in the years 1977-80. Almost every branch of the national economy gained new production or handling capacity.

In the energy industry, power construction reported considerable achievements with 71 big and medium-sized projects finished and put into operation in the four years, nearly a quarter of all the big and medium-sized industrial projects

completed in this period. Among them are the Qinghe Power Plant in Liaoning, China's largest thermal power plant, which was completed and commissioned in 1977, and the Gongzui Hydropower Station in Leshan, Sichuan, the largest hydropower station in southwestern China, which was completed and went into operation in 1978. Nearly a quarter of China's installed generating sets, with a combined capacity of 66 million kw by the end of 1980, was erected and put into operation in these four years. Work proceeded at an acceleration tempo on China's largest water control project at Gezhouba, the outlet of the Changjiang Gorges. The power station there will have a generating capacity of 2.715 million kw, 45 per cent more than the country's total before Liberation in 1949. The first phase includes the installation of seven generating sets with a combined capacity of 965,000 kw. Two 170,000 kw generating sets were planned to go into operation in the latter half of 1981.

Newly-added synthetic ammonia production capacity in the four years between 1977 and 1980 accounted for more than 28 per cent of China's total at the end of 1980. The increased chemical fibre production capacity in the same period was 30 per cent more than the total capacity added in the preceding years. The Shanghai General Petrochemical Works, commissioned in June 1979, is a large modern complex producing synthetic fibres, with a designed annual capacity of 102,000 tons of chemical fibres and 60,000 tons of high pressure polyethylene. China's biggest petrochemical fibre complex, the Liaoyang General Petrochemical Fibre Company, has a designed annual capacity to produce 131,000 tons of polyester and nylon 66 salt, raw materials for dacron and polyamide fibres. These, if stretched into filaments, can be turned into enough cloth to provide each Chinese with 1.3 metres. The company can also produce 70,000 tons of polyethylene and polypropylene a year, which can be used to process enough plastics products to substitute for 200,000 tons of rolled steel

or 300,000 tons of non-ferrous metals. The Sichuan Vinyon Mill is designed to produce 45,000 tons of vinyon a year. Most of the equipment in the company and the mill went into operation in 1980. Chemical fibres accounted for 23 per cent of all textile raw materials in China in 1980 as against 7.3 per cent in 1977.

Light industry led all the branches of the national economy in the number of medium-sized projects completed and commissioned in the 1977-1980 period. Sugar refineries were built in the sugar beet and cane growing areas, with a combined capacity of over 600,000 tons, which meant that these years witnessed the greatest increase in capacity since the 1950s. The Nanjing Alkyl Benzene Plant went into trial production in the fourth quarter of 1980. It was designed to produce 50,000 tons of alkyl benzene, or three-fifth of the total raw materials China needs to produce synthetic detergents. In the past, alkyl benzene had to be imported in large quantities, which cost 40 million U.S. dollars in foreign exchange each year.

An advanced imported 1.7-metre rolling mill was installed at the Wuhan Iron and Steel Company in the last quarter of 1978. It went into production in July 1980 after one year's alignment and trial runs. The mill turned out 880,000 tons of steel sheets in 1980, more than the national output in 1976.

The building materials industry stressed the construction of cement works and glass factories. The four years saw the construction and expansion of 9 cement works and 3 glass factories, all large and medium-sized plants. They greatly expanded the production capacity of cement and glass, both in great demand in the country.

Notable progress was made in the construction of refrigerated warehouses. In 1980 alone, 430 commercial refrigerated warehouses were completed or under construction, with a combined designed capacity of 660,000 tons, (of which 146 were completed in 1980 with an aggregate capacity of

189,000 tons), accounting for 58.9 per cent of the total storage capacity added in previous years. Between 1949 and 1979, China invested an annual sum of 40 million yuan in the construction of commercial refrigerated warehouses, refrigerator boats and vans. But in 1980 alone, the investment in refrigerated warehouses exceeded 300 million. By the end of 1980, refrigerated warehouses had been built in 150 of the 230 livestock breeding counties in the country.

Beginning in 1979 when the national economy entered a period of readjustment, capital construction was curtailed and its investment direction changed. After two years' effort, the investment ratio in capital construction was improved, as shown in the following table (with the total sum of capital construction investment as 100):

| | 1952-78 | 1978 | 1979 | 1980 |
|--------------------------------------|---------|------|------|------|
| Agriculture | 11.2 | 11.1 | 11.6 | 9.6 |
| Light industry | 5.9 | 6.1 | 6.4 | 9.1 |
| Heavy industry | 51.3 | 50.9 | 45 | 41.7 |
| Transport, posts, telecommunications | 16 | 14.1 | 12.8 | 11.6 |
| Commerce, foreign trade | 2.8 | 3.2 | 4.1 | 5.8 |
| Science, education, health | 4.2 | 4.5 | 6.7 | 8.2 |
| Urban construction | 2.3 | 3.2 | 6 | 6.3 |
| Other sectors of national economy | 3.2 | 2.6 | 3.6 | 5.1 |
| Productive investment | 84.7 | 82.6 | 73.0 | 66.3 |
| Non-productive investment | 15.3 | 17.4 | 27.0 | 33.7 |

The over-emphasis on heavy industry in investment began to change. In 1979, the proportion of investment in heavy in-

dustry dropped below 50 per cent. The proportion in metallurgical, chemical and machine-building departments, which used to claim a lion's share of the investment in heavy industry, declined considerably in 1979 and 1980. The proportion of investment going to light industry which had been minimal in comparison, climbed up year after year, reaching 9.1 per cent in 1980, second only to the 9.3 per cent in 1952. The ratio between light and heavy industries was 1:7.03 in 1979 and 1:4.58 in 1980, as against 1:8.69 for the period of 1952-78. But the trend towards decline in the proportion of investment in transport, posts and telecommunications, and energy industry had to be reversed.

Investment in non-productive projects rose annually by 47.7 per cent in 1979-80. Such a rate had been unheard of for years. The proportion of non-productive investment rose to 33.7 per cent of the total investment in 1980, higher than the 28.3 per cent in the First Five-Year Plan period. Investment in urban construction dropped by 390 million yuan in 1980 from the 1979 sum but its share in the total investment somewhat rose. As a matter of fact, however, the scope of urban construction in 1980 far exceeded that in the previous year, because urban housing investment was increased by 3,397 million yuan. Urban housing investment was not included in the investment for urban construction.

Capital construction had to be curtailed so that its scale was suited to our financial and material resources. In 1979 and 1980, 415 big and medium-sized projects and 2,510 small ones were suspended or postponed, saving a total of 17.2 billion yuan. However, a greater investment than this was needed to start the new projects in these two years, resulting in a rise in capital construction investment. If the 1978 capital construction investment is regarded as 100, then the sum for 1979 was 104.2 and that for 1980 was 112.5. Capital construction investment had yet to be reduced.

9. SPEED-UP OF URBAN HOUSING CONSTRUCTION

Priority was given to housing construction in the cities and towns between 1977 and 1980.* The total floor space of finished housing and housing under construction as well as the investment in housing construction zoomed at an unprecedented pace, as shown in the following:

| | 1977 | 1978 | 1979 | 1980 |
|---|-------|-------|--------|--------|
| Floor space under construction (million square metres) | 54.68 | 73.14 | 119.98 | 148.17 |
| Floor space completed (million square metres) | 28.28 | 37.52 | 62.56 | 82.30 |
| Investment (billion yuan) | 2.506 | 3.754 | 7.379 | 10.776 |

The floor space of housing completed in 1980 exceeded the total for the three-year period of 1974-76. In terms of the floor space housing under construction rose at an annual rate of 29.8 per cent in the four years, and the completed housing at an annual rate of 35.8 per cent. The investment rose 49.1 per cent each year. The share of investment for housing in total capital construction investment grew from 7.8 per cent in 1978 to 14.8 per cent in 1979, surpassing the previous record of 12.5 per cent in 1953. The proportion continued to

* None of the figures for housing construction in this article include the housing built by the collectively-owned units or individuals in town and country. China's capital construction investment does not include the sum invested in the construction of such housing projects. Rural housing construction registered fast growth in recent years. In 1980, 37 million square metres of housing were built in the rural areas of Zhejiang Province, a record in local history. A total of 900 million square metres of housing were erected in rural China in 1978-80, and 15 million peasant families moved into new houses.

grow in 1980, reaching 20 per cent, and the investment figure broke the 10-billion mark.

Between 1949 and 1978, a total of 530 million square metres of housing were built in the cities and towns. But the urban population increased from 57 million to 119 million in the same period. This, coupled with the demolition of some of the existing houses, meant the per-capita housing space in the cities was a mere 3.6 square metres in 1978, even less than the 4.5 square metres per capita shortly after Liberation. In those 29 years, none of the provinces, municipalities or autonomous regions completed more than three million square metres of housing a year. But in 1979, three provinces reported the completion of more than four million square metres, and another five completed somewhere between three and four million square metres. In 1980, one province completed more than six million square metres, three provinces around five million square metres, another three provinces between four and five million, and four provinces and municipalities finished between three and four million. Although the urban population increased by 14 million in these two years, the per-capita housing space expanded somewhat to 3.7 square metres for 1979 and 3.9 square metres for 1980.

The pace of construction of public utilities in the cities also picked up. The following table shows fairly large increases in the capacity of the public utilities:

| | 1976 | 1980 |
|--|--------|--------|
| Supply capacity of water works (million tons/day) | 22.02 | 29.79 |
| Number of buses, trolleys at year end | 22,581 | 32,098 |
| Mileage of mass transport in service (kilometres) | 45,049 | 58,569 |

| | | |
|--|---------|---------|
| Mileage of urban roads (kilometres) | 26,489 | 29,485 |
| Permanent bridges in town | 4,375 | 4,624 |
| Yearly supply of liquefied petroleum gas (tons) | 174,203 | 195,491 |
| Yearly supply of man-made gas (million cubic metres) | 1,375.9 | 2,904.6 |
| Mileage of sewerage (kilometres) | 18,269 | 21,860 |

10. BETTER QUALITY AND MORE VARIETIES OF PRODUCTS

A general drive was mounted to improve the quality of products and work among the industrial, building and transport enterprises in 1979. The following year saw further efforts to create fine-quality brand-name products, and many enterprises worked out plans to upgrade and update their products. By the end of 1980, most of the manufactured goods had reached or surpassed their previous best quality levels, and a growing number of goods had approached or reached advanced international standards. The State Council in 1979, after repeated assessment and comparison, awarded gold medals to 51 superior-quality products that were up to advanced international or domestic standards, and silver medals to 121 others. This was the first time that China ever granted national awards to quality industrial goods. In 1980, various localities submitted 2,100 products for national quality assessment, 69.5 per cent more than the 1,239 submitted a year before. In 1980 the State Council awarded gold medals to 47 products and silver medals to 246, the total number topping 1979's figure by 70.3 per cent.

Good progress was made in the quality, variety and designs of the light industrial goods directly related to people's lives such as food, clothing and articles for everyday use. More than 80,000 new textile and other light industrial products were tried out and manufactured in 1979, and most of them were put on the market the same year. The year 1980 saw the textile industry test and manufacture more than 30,000 new varieties and designs. There were more than 80 varieties of midfibre fabrics made of chemical fibres in 1980 as against 30-odd in the past. Light industry succeeded in trial-producing over 7,000 new goods and more than 100,000 products of new designs; half of both went into on-line production. The average working time without breakdown of the TV sets doubled in 1980 compared with the year before. Shanghai scientists succeeded in prolonging the service life of China-made black and white picture tubes from 2,000 hours to 8,000 hours. In 1980, 28 textile goods made in Shanghai reached advanced world quality levels, and consequently their export prices rose between 20 and 40 per cent. So far, Shanghai has 81 textile goods up to advanced world levels.

The quality of many heavy industrial products was also improved and their variety increased. Of the products subjected to check and assessment by the First Ministry of Machine-Building Industry in 1979, 97.4 per cent met the standards, as against the 80 per cent in the previous year, and a quarter of them were top grade items. In 1978, 61 products were awarded the title of Trustworthy Quality (products whose quality is top grade for at least two successive years). There were another 143 products awarded the title in 1979 and 162 in 1980. Two products won national gold medals for superior quality and seven got silver medals in 1979. The following year saw another three products awarded the gold and 26 the silver. A total of 945 new products were made by the factories under the First Ministry of Machine-Building Industry in 1979, a record for the last decade, and another 668 new goods were added in 1980.

Construction enterprises kept up their emulation drive to build projects meeting all quality standards. This drive was initiated in 1978 by the building enterprises in the Beijing-Tianjin-Tangshan area, and spread across the nation the following year. Incomplete statistics show that 6,566 projects meeting the quality standards were built in 1980, including housing projects with a total of 12.783 million square metres of floor space. The floor space of such housing erected in Beijing, Tianjin and Tangshan rose by 52 per cent, 135 per cent and 569 per cent in 1980 respectively over the previous year. The housing up to the quality standards in Beijing made up 32.3 per cent of all housing projects in 1980, as against 25.1 per cent in 1979; that in Tianjin rose from 14.8 to 27.3 per cent in the same period.

11. LABOUR PRODUCTIVITY AND PROFITS RAISED

Economic performance of the industrial, transport and capital construction departments began to pick up in 1977 and surpassed the previous best in 1978, as shown in the table on the following page.*

The productivity in industry kept rising in the 1977-1980 period, a phenomenon which had occurred only in the first half of the 1950s and 1960s. This was very encouraging. The productivity in the railway departments also rose for four years running, the first increase of its kind since 1949. Another feature of the rising industrial productivity was that it played a great role in newly-added output value, marking the beginning of an end to the situation in which production increases were chiefly a function of employing more workers. Between 1970 and 1976, the production of the state-owned industries

* The railway and water transport units here are directly under central government departments, not including those under the local authorities.

| | Previous best | 1977 | 1978 | 1979 | 1980 |
|---|------------------|-------|--------|--------|--------|
| productivity in state-owned industry (yuan/person) | 10,125 (1970) | 9,873 | 11,085 | 11,790 | 12,031 |
| productivity in state-owned building enterprises (yuan/person) | 3,237 (1964) | 2,966 | 3,704 | 3,858 | 4,283 |
| productivity in railway units (thousand converted ton-km/person) | 420 (1973) | 403 | 452 | 468 | 477 |
| productivity in water transport units (thousand converted ton-km/person) | | 2,160 | 2,795 | 3,304 | 3,299 |

dropped for two years and increased for five. In two of the five years, production grew entirely as a result of using more workers, while the productivity per worker was below the previous year's. In the other three years, the factor of employing more workers accounted for half of the total newly-added output value. Labour productivity improved so much in 1977-79 that it accounted for 65.7 per cent of the total newly-added output value in 1977, 84.1 per cent in 1978 and 62 per cent in 1979.

Industrial profits decreased twice during the ten-year turmoil. The profits of the state-owned industrial enterprises doing independent business accounting dropped in 1968 by 52.4 per cent from the 1966 figure, and in 1976 were 14.1 per cent less than in 1973. State-owned building enterprises depended on state subsidies year in year out, civil aviation services chronically ran at a loss, and postal and telecommunication services operated at an increasing deficit for three consecutive years ending 1976. Things turned for the better from 1977 onwards as various trades and regions made great efforts to turn from deficit to profit.

Following were the main financial indexes in the state-owned industrial enterprises (with 1976 taken as 100):

| | Net profits | Losing units | Loss | Profit per 100 yuan of output value |
|------|-------------|--------------|------|-------------------------------------|
| 1977 | 121.3 | 79 | 71.1 | 107.1 |
| 1978 | 160.5 | 54.7 | 61.3 | 123 |
| 1979 | 177.5 | 47.3 | 55.9 | 125.4 |
| 1980 | 184.6 | 44.6 | 60.9 | 123 |

The indexes of profits and operational costs of the railway, highway and water transport units are as follows (with 1976 taken as 100):*

| Profits | | | | Costs per unit | | |
|---------|-------|----------|-----------------|----------------|----------|-----------------|
| | Rail | High-way | Water transport | Rail | High-way | Water transport |
| 1977 | 122.2 | 137.6 | 125.7 | 92.2 | 96.1 | 90.9 |
| 1978 | 147 | 155 | 173 | 86.7 | 95.6 | 84 |
| 1979 | 152.2 | 141.9 | 191 | 87.9 | 98.6 | 89.9 |
| 1980 | 98.3 | 130 | 199.2 | 107.7 | 100.8 | 88.2 |

The building enterprises under the General Administration of Building Construction began to turn from deficit to profit in 1977, and their profits grew for four successive years ending in 1980. The postal and telecommunication service also began to make profits in 1977, and the civil aviation services followed suit in 1979.

On the whole, the economic performances of industry, transport and capital construction gradually improved in the period of 1977-80. But they had yet to match their historical best records in a number of technical, economic and financial areas.

* These railway and water transport enterprises are directly under the central government departments, and do not include locally-run ones. The highway transport units are locally-run enterprises. Beginning in 1980, the depreciation rates for fixed assets were raised in railway enterprises, affecting both their profits and costs.

12. SUCCESSES SCORED IN ENERGY CONSERVATION

In 1978, many regions and departments reversed the upward trend in energy consumption that had prevailed for years. According to a survey of more than 400 key enterprises in the eight trades of metallurgical, power, coal, petroleum, chemical, building material, light industries and transport services, 26 of the 30 major fuel and power consumption quotas were lowered in 1978 from one year earlier, and 10 of them reached the previous lowest levels. A rough estimate is that lowered energy consumption saved a total of eight million tons of fuel and more than two billion kwh of electricity in 1978.

More efforts were devoted to energy saving in 1979. A total of 23 million tons of coal, 2.8 million tons of oil, and 7.8 billion kwh of electricity, or 23.6 million tons of standard coal, were saved that year. This contributed to the 8.5 per cent increase in industrial production when energy output rose merely by 2.9 per cent. The main channels of energy conservation were:

First, about 70 per cent of the products made in the key enterprises consumed less energy than before. According to a survey of 512 key enterprises in the ten trades of metallurgical, power, coal, petroleum, chemical, building material, light and textile industries, railway and communication services, in 1979 they saved more than 4.2 million tons of standard coal, 480,000 tons of oil, and 1.9 billion kwh of electricity.

Second, small industries were shaken up. Three hundred and ninety-four small synthetic ammonia plants were temporarily or permanently closed, merged with others, or changed over to other lines of production. This saved 3.45 million tons of coal and 12.72 million kwh of electricity in the year. According to a survey made by the metallurgical departments, 150 small iron works run by the prefectures and counties were completely shut down, suspended operation, were merged with

others or switched to other lines of production and 195 blast furnaces stopped operation in 1979. In addition, 24 blast furnaces stopped operation in the medium-sized and small key iron and steel works. Altogether, a total of 5,431 cubic metres in available blast furnaces volume was shut down. This cut the coke consumption by 600,000 tons in the year.

Energy conservation scored still greater successes in 1980. That year witnessed the saving of 35 million tons of standard coal, of which 22 million tons were conserved because of readjusting the industrial structure and the product mix*, and 13 million tons of savings could be attributed to better management and lower energy consumption. This ensured the fairly fast growth of industrial production even though energy output was reduced.

There was a continuous decrease in the energy consumption per 100 million yuan of industrial output between 1976 and 1980. The consumption was over 100,000 tons of standard coal in 1976, and decreased to 83,000 tons in 1980. Shanghai registered the lowest energy consumption per 100 million yuan of industrial output, thanks to a higher technical and management level; it fell from 30,600 tons in 1979 to 29,400 tons in 1980. Twenty-six advanced industrial and transport enterprises were commended and awarded at China's first national conference to exchange experience in energy conservation held in November 1980, and 20 per cent of them were from Shanghai.

Following are the main energy consumption quotas in the major energy-consuming industrial and transport departments:

* In China, the energy consumption per 100 million yuan of heavy industrial output was 4.5 times that of light industrial output in 1980. If the proportion of light industry in the total industrial output value rose by 1 per cent, 4.5 million tons of standard coal could be saved.

| | Previous lowest level | 1977 | 1978 | 1979 | 1980 |
|---|-----------------------------|--------|--------|--------|--------|
| Coke consumption in iron smelting (comprehensive coke ratio, kg/ton) | 603 (1965) | 682 | 623 | 601 | 585 |
| Comprehensive energy consumption per ton of steel (standard coal, ton) | | 2.87 | 2.52 | 2.28 | 2.04 |
| D.C. Power consumption per ton of electrolytic aluminium (kwh) | 15,723 (1966) | 16,879 | 16,059 | 15,820 | 15,432 |
| Coal Consumption in generating power (standard coal g/kwh, stations with more than 6,000 kilowatts) | 442 (1966) | 446 | 435 | 422 | 413 |
| Coal Consumption in power supply (standard coal, g/kwh, stations with more than 6,000 kilowatts) | 477 | | | 457 | 448 |
| Power consumption per ton of synthetic ammonia (kwh in medium-sized plants) | 1,567 (1966) | 1,603 | 1,516 | 1,466 | 1,442 |
| Coal consumption per ton of cement clinker (standard coal, kg) | 215.1 (1973) | 214.4 | 211.19 | 207.16 | 206.54 |

| | | | | | |
|---|-----------------|-------|-------|-------|-------|
| Comprehensive power consumption per ton of cement (kwh) | 91.2 (1970) | 98.25 | 96.70 | 96.00 | 96.66 |
| Steam locomotive coal consumption per 10,000 ton/km (standard coal, kg) | 118.4 (1973) | 122.2 | 114.1 | 109.5 | 106.4 |

II. POLICIES AND MEASURES

China's considerable achievements in industry and in transport and communications in the 1977-1980 period resulted from the implementation of policies adopted by the Communist Party and the government.

1. GIVING PRIORITY TO DEVELOPING LIGHT INDUSTRY

An important policy in readjusting the national economy was the giving of priority to the development of light industry (including the textile industry and handicrafts). It was also a key measure aimed at improving the economic structure of the country.

It was decided at the second session of the 5th National People's Congress held in June, 1979 that priority should be given to the development of light industry over a certain period of time, so that light and heavy industries would be placed in an appropriate relationship to one another, and that the supply of commodities would keep pace with the growth of the domestic purchasing power and the need for exports.

To develop the textile and other light industries a series of measures were taken in 1979 and 1980.

(1) Improving conditions for production and circulation. The state decided to give priority to the following six aspects of the country's textile and other light industries and handicrafts in 1980: the supply of raw and other materials, fuel, electric power; measures to facilitate the tapping of production potential and technical innovation and transformation; capital construction; bank loans; earmarking of foreign exchange and introduction of new foreign technology; and transport and communications. There was a marked increase in most of the raw and other materials for the textile and other light industries in 1980 as compared with the previous year. For instance, the timber for the paper industry increased by 7 per cent, the pig iron for making sewing machines increased by 25 per cent, the copper, aluminum and zinc needed by light industry rose from 8.7 to 43.3 per cent and caustic soda and soda ash needed by the textile industry increased by 7.2 per cent and 18.8 per cent respectively.

There was also a marked increase in the state allocation of funds for light industry. In addition to the state investment of 2.3 billion yuan in capital construction in the textile and other light industries, in 1979 the state earmarked 1.5 billion yuan for technical transformation projects in these industries. Compared with 1979, the state in 1980 allocated 15 per cent more funds to light industry in the form of capital construction investments, funds for technical measures and bank loans (excluding small loans for minor technical innovations and construction funds raised by handicraft collectives and local governments). The State Council approved a 200-million-yuan government loan in foreign exchange to light industry to be used for importing advanced technology and equipment (in 1980 and 1981). State allocations to the textile and other light industries for importing raw and other materials multiplied as compared with the previous year.

(2) Adopting correct economic policies. There are many branches of light industry and many collectively-owned en-

terprises. To develop light industry rapidly, it was necessary to correct the mistake of neglecting the enterprises under collective ownership. Thus, many provinces and autonomous regions attached importance to these enterprises, solving the questions of political status and financial remunerations for workers. It was declared that industrial enterprises under collective ownership must be protected. No one was allowed to encroach upon or appropriate their properties. Local governments helped collectively-owned enterprises acquire supplies of raw and other materials.

(3) Developing the production of small commodities. Because of their multitude of categories and specifications, small production batches, low output value and low profits, small commodities were time and again eliminated in previous economic reforms. In the readjustment and restructuring which started in 1979, due attention was given to this question. The importance of small commodities was fully appreciated, producers of small commodities were assured of a bright future and government agencies in charge of directing the production were strengthened. Proper policies, principles, plans, organizational forms and measures were taken that conformed with the characteristics of the production of small commodities. Since the production of small commodities needed all sorts of raw materials, efforts were made to find new sources of these needed materials. A whole set of measures were adopted that were different from those for large-scale commodity production, and the appropriate traditional channels for supply of raw materials were reopened. To make the form of sales suit the requirements of the market, wholesale markets of small commodities were established and trial-retailing stores, promotion sales stores, and shops at tourist attractions were set up to facilitate marketing. Small-scale production was encouraged so as to be adaptable to increasing or changing types and specifications. A Beijing state-owned scissors and knife-making factory with 1,000 workers, which had been a merger of small plants, was broken up into four smaller factories and

resumed production of 29 types of traditional products. Following the change over, the 1979 total output value rose by 12.1 per cent over 1978 and profits rose by 30 per cent.

(4) Encouraging military industrial enterprises to produce civilian goods. The country's military industry has a great production potential as it is supplied with better equipment and staffed by more scientific and technical forces than the civilian sector. In the economic readjustment drive, many military industrial enterprises also produced goods, especially light industrial goods, to meet civilian needs. An average annual increase of 15 per cent was registered in the period of 1977-80 in the output value of the civilian products made by enterprises in the national defence industry.

2. STRESSING ENERGY CONSERVATION WHILE EXPLOITING ENERGY RESOURCES

After the recovery and development of the national economy which started in 1977, the energy problem became acute. Because of a shortage of electricity, many enterprises had to suspend production for three or four days every week. Sometimes, even domestic needs for electricity in urban areas could not be met. Rural areas also suffered from an acute fuel shortage. The industrial departments estimated that the country was short of more than 40 billion kwh annually in its energy supply for industry. Because of this, between 20 and 30 per cent of the country's productive forces were idled, which meant a loss of 70 billion yuan annually in output value. This situation should first of all be attributed to the erroneous practice of "making steel production the key link" and to blindly pursuing rapid expansion, which disrupted the balanced development of the national economy. As a result, the investment in energy resources was always too low and poorly used.

Secondly, there were too many policy shifts on the exploitation of energy resources. Toward the end of the 1960s,

the policy of using coal as the main energy resource was switched to a policy of the "simultaneous development of coal, oil and gas and the accelerated development of oil and gas". On the question of coal prospecting and exploitation, it was decided for a period of time to change the situation of transporting coal from the north to be used in the south. Petroleum prospecting was carried out sometimes in the west and sometimes in the east. And stress was placed sometimes on thermal power and sometimes on hydropower in developing electricity. The faulty guidance in energy production aggravated backwardness in this field. Thirdly, the lopsided implementation of the policy of simultaneous development of large, medium-sized and small enterprises led to the unchecked growth of the small industrial enterprises which were technically backward and should not have been encouraged to grow. This, plus neglect of equipment renewal and backwardness in management, caused serious energy waste.

Energy supply is decisive to the speed of development of industry and of transport and communications. To solve the energy problem, the Central Committee of the Chinese Communist Party early in 1978 worked out the Decision on Some Questions Concerning the Accelerating of Industrial Development (draft). It was stipulated that great efforts be made to develop and improve use of various energy resources and that, rigid measures be taken to economize on energy. The saving of crude oil was to be regarded as a major policy. The use of oil as fuel was to be prohibited wherever it was deemed undesirable. In cases where oil was already used as fuel, the equipment was to be retooled to use other energy resources. At the time, in 1978, among the more than eight million kw power generating units which consumed oil, more than five million kw units originally had used coal. By the end of 1980, 2.7 million kw units had been remodeled to use coal again.

In 1978, the State Council issued a directive which stipulated that enterprises be rationed a defined amount of fuel

and electricity. Since various localities and departments strengthened their control over the use of energy, the ever-increasing consumption of fuel was held in check. In 1979, the Party Central Committee and the State Council urged that equal attention be paid to the exploitation of energy resources and to energy conservation. They particularly urged that the production of coal, electricity and petroleum must be increased as soon as possible. In coal production, existing mines were to undergo technical transformation and new shafts to be built quickly. Great effort and care was urged for oil prospecting to increase the reserves. As for power generation, the existing equipment and installations were to be put in good working order and improved. As many hydroelectric stations as possible were to be built along with the development of thermal power plants. Wherever possible, construction of hydroelectric stations was to be begun as quickly as possible. The building of small rural hydroelectric stations was encouraged. On the other hand, strict and effective measures were to be taken to economize on energy use and stop waste. The coal, electricity and oil consumption of each enterprise was to be determined by certificates specifying rations based on that enterprise's best energy consumption record.

In the next few years, while the existing coal mines and oilfields readjust their internal relations and while new investment in energy development is limited, big increases in the output of coal, oil and electricity will not be possible. Therefore for a period of time to come, the energy needed by the growth of the country's industry should be obtained mainly through rational consumption and the practice of economy measures. After a further study of the country's energy situation, the State Council decided in 1980 that China's energy policy should be: equal emphasis on exploitation of energy resources and on energy conservation, with priority given to the latter as a more urgent task and as a key link in the technical reform and restructuring of the national economy.

An ongoing nation-wide mass drive to economize on energy was launched in 1979. That year the State Council decided that thereafter an "energy economy month" would be set every year so that practising economy measures in energy consumption would become regular and systematic.

Readjustment of small enterprises has also contributed to more economical energy consumption.

3. EMPHASIZING QUALITY, VARIETY AND SPECIFICATIONS

In the course of implementing the principle of "quality first", various localities and departments have made it a practice not to use, process, assemble or sell faulty raw materials, semi-finished materials, accessories or products. They have also instituted a system of "three guarantees" (for repair, replacement or compensation of faulty products). In August 1978, the First Ministry of Machine-Building Industry decided to enforce the system for the farm machinery made by plants under its jurisdiction.

Beginning in 1978, mass-scale quality control was conducted. This work included:

— The launching of the "Quality Month" activities. The State Economic Commission set aside September as "Quality Month" for a nation-wide check-up on quality of industrial products.

— The passage and implementation of regulations on awards for fine-quality products. The state promulgated the Regulations on Awarding Fine-Quality Products of the People's Republic of China and the Regulations on Marks for Fine-Quality Products. Awards were granted by the State Economic Commission to outstanding products during "Quality Month".

— The exercise of total quality control. In March 1980, the State Economic Commission promulgated the Interim

Measures for Total Quality Control in Industrial Enterprises. These require quality control over products throughout the whole process of designing, trial production, production, sale and after-sale service. They demand the participation of all workers and staff members of the enterprise and all departments in studying and exercising quality control.

— The development of new products and increase in the output of scarce items. A case in point was the 1980 rapid increase in the output of steel products which were in great demand. The result was achieved by instructing four major iron and steel complexes to use their rail rolling equipment to roll billets, raising the country's billeting capacity by 1.15 million tons annually and thus creating the conditions for increasing the production of steel wire and other small specifications of rolled steel. Originally, the increased production of these products was restricted because the country was low in steel blooming capacity, especially in billeting capacity.

4. IMPORTING ADVANCED TECHNOLOGY

Another important policy for the country's industry and the national economy as a whole was importing advanced technology and strengthening economic co-operation and technical exchanges with other countries.

Since the founding of the People's Republic, new technology has been imported from abroad in a planned and selective way. This has played an important role in achieving an initial success in creating a comprehensive industrial system and a national economic system.

In its Decision on Some Questions Concerning the Acceleration of Industrial Development (draft), the Central Committee of the Chinese Communist Party points out: "while persevering in the principle of self reliance, it is necessary to assimilate good things from foreign countries and import in a planned and selective way the advanced technology and

equipment which we urgently need to make them serve our own purpose". Guided by this principle, the localities and departments have done much work and made considerable achievements. However, at the beginning, because we lacked experience and acted a bit too hastily, we had some trouble and suffered some losses in dealing with foreign businesses.

In pushing our modernization drive, we must proceed from China's national conditions. Since we have only limited funds and an insufficient technical force but a big population, we have to think about what to modernize first. In introducing advanced technology, we should give primary consideration to projects which will play a vital role in enhancing the country's economic power and national defence. As for those that only aim to reduce the use of manpower, we should import very few of them for a certain period to come, or none at all for the present. In China both advanced technology and basic technology, enterprises of varying scales and handicraft workshops will all exist for a long period of time. This makes it easier to provide jobs for a huge labour force. If large investments are made on equipment and technology that hardly increase production but reduce much manpower, we will find ourselves in trouble in arranging work for the freed manpower. Therefore, it is necessary to ensure full development of automated, mechanized and semi-mechanized production as well as of handicraft production, so that the country's human resources can be used to develop production in depth and scope. In introducing advanced technology and equipment from abroad, proper arrangements should be made in consideration of the actual situation of this country. Blindness must be guarded against.

In 1979 China entered a period of economic readjustment. The Communist Party and government emphasized the importance of continuing to do well the work of introducing advanced technology. They pointed out: During the period of economic readjustment and for a fairly long period to come, we will actively develop our foreign trade, promote economic

co-operation and technical exchanges with other countries and adopt all the reasonable forms generally used in the world to absorb foreign capital. This is an important policy the Chinese Government will pursue unswervingly. To encourage the introduction of advanced technology, Article Seven of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment stipulates: "A joint venture equipped with up-to-date technology by world standards may apply for a reduction of or exemption from income tax for the first two to three profit-making years". Article Five also stipulates: "The technology or equipment contributed by any foreign participant as investment shall be truly advanced and appropriate to China's needs. In cases of losses caused by deception through the intentional provision of outdated equipment or technology, compensation shall be paid for the losses".

In 1979, the State Council set up the State Commission for the Control of Import and Export Affairs and the Foreign Trade Control Committee and laid down the following guiding principles for the use of foreign investments and the introduction of new technology.

(1) Suiting the needs of the economic readjustment. In the next few years, foreign investments and imported technology should be used in the main to promote agriculture, textile and other light industries and the upgrading of the weaker links in the national economy. The emphasis should be on those projects which require small investments but yield quick results, earn foreign exchange and make profits.

(2) Suiting the needs of promoting the energy industry and the country's transport and communications. Projects of this category usually require huge investments and lengthy construction periods. When domestic investment is insufficient, foreign investment should be encouraged so that such projects may be built more quickly.

(3) Suiting the needs of technical transformation of existing enterprises. New technology and equipment should be imported mainly for updating old plants rather than for build-

ing many new ones. This is an important way to achieve greater, faster, better and more economical results.

(4) Suiting the needs of enhancing exports and changing the composition of export commodities. Great efforts should be made to boost the export of machinery and other highgrade manufactured goods, especially those labour-intensive products with a high foreign exchange earning rate. This takes into consideration the country's rich human and material resources.

(5) Suiting the needs of raising the country's machine-building capacity. Emphasis should be placed on the introduction of technological processes and equipment-making techniques. As for whole plants, the best way is to buy the key equipment and reserve the manufacture of secondary and auxiliary equipment for the home industries. In buying technology, it is also necessary to select what is vital and master its use as soon as possible.

(6) Using a multitude of forms, including loans, the processing of material provided by foreign clients, co-production, compensation trade, technical co-operation and joint ventures using Chinese and foreign investments. Since each form has its own merits, it is necessary to take the actual conditions into consideration and choose the form that best fits the situation.

(7) Considering the domestic capacity to provide what is needed for the construction and operation of a project. The capacity consists of both the domestic capability for investment, equipment, materials and building labour force before setting about a project, and the availability of raw materials, fuel, power and transport facilities after the operation of the project. An overall appraisal and feasibility study should be carried out before embarking upon an imported project.

(8) Taking account of the existing management level. Considering the current low management and technical level at home, it is necessary to go step-by-step in using foreign investment and importing foreign technology.

(9) Keeping in mind our ability to repay the loans. Departments and localities should submit their plans for repay-

ment of foreign loans when they apply for importing equipment or technology.

(10) Establishing a clear responsibility system. The responsibilities of the department in charge, the locality and the enterprise which imports foreign equipment or technology should be clearly delineated so that if losses occur because of neglect of duty, the parties at fault can be held economically and legally responsible. Banks should supervise the use of the loans they lend.

5. CHECKING UP ON THE PROJECTS UNDER CONSTRUCTION AND CUTTING DOWN THE SCALE OF CAPITAL CONSTRUCTION

Over many years, the country undertook too many construction projects on too large a scale, and some of the investments were not made in the proper direction. To change this state of affairs, the Party and government laid down the principle of reducing the scope of capital construction. Nevertheless, during 1977 and 1978 the "Left" error in economic guidance had not yet been repudiated and the scope of capital construction was not reduced but further expanded under the slogan "Go all out and go fast". Especially in 1978, a plan for building 120 key projects was put forth, and contracts were signed for the import of 22 complete plants.

Beginning in 1979, China entered a period of the readjustment of the national economy. A major task was to readjust all capital construction, which included reducing its scope and changing the direction of investment.

A general survey of projects under construction was made in 1978. It showed: (1) some 65,000 projects of state ownership were under construction, each involving an investment of at least 50,000 yuan. Among these over 1,700 were large and medium-sized projects which would take at least four or five years to complete. (2) Quite a number of projects under

construction were technically backward and economically inappropriate. When completed, they would continuously create losses by producing poor-quality products at high costs. (3) A clear imbalance existed among the different projects under construction. In particular, the coal, petroleum, electricity, building materials and transport and communications industries became a very weak link because capital construction in these fields lagged behind the growth of the national economy as a whole. Much also remained to be done for municipal construction, residential housing and scientific research, as well as for culture, education and public health.

The following stipulations were laid down in 1979 to monitor the projects under construction:

(1) No projects should be undertaken without clear data on hydrological and engineering geological conditions or natural resources; without an appropriate design and current technology; without ensured building materials, equipment, funds and builders; without a guaranteed supply of fuel, power, raw and other materials or water and transport facilities; without a technical level so advanced that major alterations will not be required as soon as the projects are completed; or without necessary pollution controls.

(2) Projects not listed in the 1979 plan or those listed but without a definite construction plan should be cancelled if there is no chance they can comply with construction stipulations, postponed if they can comply in the future, merged with other projects, changed to alternative lines of production or reduced in scale.

(3) Should a project be suspended, a careful follow-up should be made. Available materials, equipment and the labour force should be transferred to major projects under construction or to projects expected to go into operation that year. The materials, equipment and buildings which cannot be used immediately should be carefully protected. As for the equipment already ordered for the suspended project, the order should be cancelled if the plant which contracts to produce the

equipment has used no or little materials for that purpose. When the materials for such equipment have already been processed, or when the equipment is already made, it should be allocated to departments that need it. If the equipment is not needed by any other department, the department in charge of the project should buy the equipment and keep it in storage.

(4) A time limit should be set for completing overall plans on projects where construction had to continue in 1979. (These include plans for future products, construction scale, contents, total investment, available technical coordination from other departments and time limit for completion of the project).

Work to supervise capital construction projects and to reduce their scope continued into 1980. This included the following:

(1) Slashing capital construction investments. The state budget for capital construction investments was cut by nearly one-fourth compared with the previous year and the number of big and medium-sized projects under construction was reduced to 283.

(2) Strictly checking up on the projects listed in the plan for capital construction. Projects were halted when it was discovered that they were not urgently needed, technically out-of-date, economically unfeasible and lacking material and fuel resources or pollution control.

(3) Some 138 projects which had been under construction for at least ten years were either cut back or stopped.

(4) Evaluating imported projects. A careful look was taken at each of the 22 complete plants to be imported and built in China. Making up 34 per cent of the total unused investment in the large and medium-sized projects under construction, they were decisive to the question of reducing the scope of capital construction. Some were accelerated, some reduced, some postponed and some suspended.

(5) Checking up on small projects with stress on in-

dustrial projects with an investment of upwards of one million yuan and complicated structure.

(6) Keeping track of projects undergoing alterations in technology to assure that projects already suspended or postponed were not being restarted in the name of technical transformation. The number of projects targetted for technical renovations was strictly controlled.

(7) Continuing to carefully follow up the suspension or postponement of projects.

6. CONSOLIDATING ENTERPRISES

The consolidation of enterprises began soon after the fall of the "gang of four". The work done in 1977 and 1978 included:

A shake-up of leading agencies. Good cadres were cited. Those who committed mistakes of one sort or another were helped to mend their ways through education. Punishment was meted out to those who committed grave errors but were incorrigible after repeated education. The few bad elements who had sneaked into the leading agencies were thrown out.

Crushing the disruptive activities of the handful of class enemies. In some localities where there were serious cases, the masses were mobilized to launch resolute counterattacks against the counter-revolutionaries and hooligans, and to expose and punish embezzlers, speculators and other law breakers.

Establishing and strengthening organizations and systems of political work. Ideological-political work in the enterprises was strengthened, Party building intensified, the exemplary role of the Communist Party members given fuller play and Party leadership strengthened.

Consolidating the management of the enterprises. Successful efforts were made to control and administer enterprises' planning, materials, funds, labour, technical matters and equip-

ment. Enterprises were encouraged to do scrupulous business accounting to make and increase profits, improve product quality, reduce costs, maintain equipment and assure labour safety. While emphasizing the importance of strengthening ideological-political work, a set of policies was implemented to ensure the application of the principle of "to each according to his work".

In the summer of 1979, China entered a period of all-round implementation of the principle of readjusting, restructuring, consolidating and improving the national economy. In the light of new circumstances and requirements, the consolidation of enterprises centered around the task of improving economic results through raising the level of production, technique and management. The main work done in 1979 and 1980 included:

(1) Continuing to consolidate leading agencies. It was urged that leaders be well-educated people of relatively young age and with specialized knowledge and that leading agencies be streamlined, united and devoted to the cause of socialist modernization. Continued efforts were made to bring the thinking of some leading cadres still holding to mistaken ideology into alignment with the political line formulated at the Third Plenary Session of the 11th Party Central Committee. Stress was placed on boldly promoting experienced cadres of relatively young age with popular support. Leading agencies were urged to admit engineers and technicians into their ranks.

(2) Establishing strict responsibility systems. Under the leadership of the Party committee, the factory director assumes full responsibility for the guidance of production, the chief engineer for technical matters and the chief accountant for accounting. Defined responsibilities at all levels puts an end to the practice of talking about collective leadership without holding anybody responsible.

(3) Practising business accounting in enterprises and analyzing economic activities. Production records were kept and costs calculated. Norms were established for the costs and

each shift or squad was responsible for fulfilling them. Three control systems were gradually set up, namely, quality control, energy and raw materials control and business accounting.

(4) Improving the system of issuing bonuses. The amount of the bonus fund an enterprise could keep became dependent on how well the enterprise was run and how much profit it made. Across-the-board bonuses without regard to merit were disallowed. The principle of moral encouragement supplemented by material rewards was adhered to. The yearly bonus a worker could receive generally did not exceed two months' standard wage at that enterprise.

7. GIVING ENTERPRISES MORE DECISION-MAKING POWER

This was central to the restructuring of the country's economy.

The past economic management system had blocked the enterprises of this country from displaying their initiative and enthusiasm. The Third Plenary Session of the Party's 11th Central Committee formulated the principle for reforming the economic management system. As early as October 1978, Sichuan Province experimented with giving more economic decision-making power to six enterprises. The results were positive. The next year, the province increased the number of pilot enterprises to one hundred to include different types of enterprises. In July that year, the State Council circulated *Some Regulations Concerning the Extension of Decision-making Power in the Operation and Management of State-run Industrial Enterprises*. By the end of June 1980, the pilot enterprises had increased to 6,600 in various provinces and municipalities across the country.

With greater decision-making power, enterprises enjoyed a measure of much-needed independence in planning, marketing, profit distribution and the use of capital. With such power, enterprises became relatively independent economic entities.

After fulfilling their state plans, enterprises could plan production according to the needs of the domestic market and export. They also had the power to market the portion of their products that were not subject to state procurement by the materials supply departments or the commercial departments. They could trial-sell their newly developed products and, through negotiations with the commercial departments, they could even sell small quantities of products listed for state procurement.

Enterprises had the power to keep part of their profits as an enterprise fund, after they fulfilled the eight economic quotas set by the state and after honouring their contracts to supply goods to the commercial departments. Such a fund, accounting for a fixed proportion of their planned profit and overfulfilled profit, was used mainly for technical improvements and also partly for public welfare. A small percentage was distributed to workers and staff as bonuses. The enterprises had the power to use the fund at their disposal for expanded production. They were also entitled to use 60 per cent of their depreciation funds, instead of 30-40 per cent as in the past. Together with the greater part of the enterprise funds and the funds for overhauling, the depreciation funds were used for improvements in technology and to expand production. The enterprises also had partial power in foreign trade negotiations and were entitled to a share of foreign exchange earned. They came to enjoy the power to appoint and dismiss from office the secondary level leading cadres in their own enterprises, to divide the bonuses and to give rewards and penalties to their staff and workers. The decision-making power varied with the specific conditions of a locality or an enterprise.

Having become relatively independent commodity producers with the extension of their decision-making power, enterprises were allowed to conduct socialist competition, which was different from capitalist competition and which gradually developed along with the extension of their power. This led

to the State Council in October 1980 promulgating the Provisional Regulations for Developing and Protecting Socialist Competition which approves and encourages competition among the different economic sectors and enterprises through bringing their respective fortes into full play. Under these regulations, enterprises had to guarantee the delivery of designated goods to the state. But having done so, they could then plan their production according to market demand or accept orders from other enterprises. Aside from the materials supplied through state allocation, the enterprises were allowed to buy needed materials from other localities and enterprises within the framework of state policies and laws. Even for the materials provided through state-planned allocation, the enterprises were allowed step-by-step to choose their suppliers. Apart from those commodities for which the state had appointed certain departments and enterprises, other commodities were not to be monopolized. Projects suitable for contracting were to be contracted through inviting tenders and bids on a trial basis. Enterprises in principle were allowed to market independently products produced above the state plan or products made with material they obtained by themselves or new products they developed. If these products were also on the list of the products subject to state procurement and marketing, they were to be first procured by the state if they were in short supply, but enterprises also were to be allowed to market a portion of them. The prices of some of the commodities were allowed to float within a stipulated range. Enterprises were entitled to lower the prices of the producer goods in accordance with state policy and market demand as long as this did not affect their delivery of profits or taxes to the state. But they had to apply for approval for any upward adjustment of prices in accordance with stipulations on price control. No localities or departments were allowed to place blockades on the local markets against commodities from other localities or departments. Nor were they allowed to block the shipment of the raw and other materials they produced; they

had to guarantee the state allocation of such materials. Any transfer of major technical innovations and inventions had to be paid for. The regulations demanded that industrial, transport and commercial departments revise those parts of their existing regulations which might interfere with socialist competition. The governmental departments were urged to perform with competence their work to help, coordinate and control the competition, making good use of such economic levers as prices, taxes, credit and interest rates and drawing up any economic regulations necessary to ensure the healthy development of competition and production.

Both the extension of the enterprises' decision-making power and competition caused some changes in those relations of production that were not in keeping with the development of the productive forces. They thus changed enterprises from units producing solely for the fulfilment of state plan into economic units with an inherent motivating force and unprecedented initiative.

In the past, enterprises could be indifferent when the state did not assign enough tasks for them to operate to capacity. But today, if given too few production tasks from the state, they actively try to find work. The 1979 state production plan for the 84 pilot local enterprises in Sichuan Province only required 60 per cent of their power-generating and machine-building capacity, 70 per cent of their metallurgical capacity, 95 per cent of their chemical-making capacity and 97 per cent of the production capacities of the textile and other light industrial enterprises. For the industry of the province as a whole, state production plans used only 80 per cent of the production capacity. The Zhongnan Rubber Plant in Chongqing, for instance, was assigned 34 per cent fewer production tasks in 1979 than in 1978 and it could finish the annual production plan for some products in just four months. The plant used its new decision-making power to secure contracts for the supply of goods and for materials processing beyond the requirements of the state plans. As a result, its 1979 total out-

put value increased by 57.8 per cent over the original plan and 38.1 per cent above that of 1978.

With greater decision-making power, many enterprises which had produced at incredibly high costs practised economy. Many improved their management system and created new forms of business accounting. The Chongqing No. 2 Steel Works introduced independent business accounting for their workshops, which greatly improved economic results in production as workers displayed greater conscientiousness in practising economy.

Previously, enterprises would not worry about market fluctuations. Now, they have to concern themselves with the marketability and prestige of their products. They try to adapt their production to social needs. In 1979, 28 plants making mechanical and electrical products in Sichuan Province stopped the production of 38 unpopular products and added 57 new products.

Enterprises given more decision-making power have increased output value, improved product quality and raised profits. Among the 100 enterprises with extended decision-making power in management in Sichuan Province, for instance, the 84 local industrial enterprises in 1979 increased — as compared with the year before — their total output value by 14.9 per cent, profits by 33 per cent and deliveries of profits to the state by 24.2 per cent. In general, they turned out greater output value and profits than those enterprises which had not been given extended decision-making power. Furthermore, they developed a considerable number of the fine-quality new products which appeared on the market in the province in 1979.

In line with the extended decision-making power of enterprises and the developing socialist competition among them, the state control of industry through planning has also undergone a major change — a change from unified regulation through state planning to giving full play to the secondary role of markets as a regulator under the condition of planned econ-

omy. The major products vital to the national economy and people's livelihood are placed under the unified state planning, pricing and distribution. As for other products, enterprises are allowed to decide on their output according to market demand and to sell them at prices either determined by the state or allowed to float within a certain specified range with the supply-and-demand relationship on the market.

8. REORGANIZING INDUSTRY UNDER THE PRINCIPLE OF COORDINATION BASED ON SPECIALIZATION

There are quite a number of "big and all-embracing" and "small but all-embracing" enterprises in China. These enterprises produce only small batches of products, employ large numbers of workers, operate with low efficiency, outmoded techniques and poor economic results. They are no help in the task of rapidly developing the country's productive forces. To put an end to this state of affairs, beginning in the early 1960s, a dozen national or regional specialized corporations (or general plants) were set up on a trial basis in accordance with the principle of coordination based on specialization. But during the "cultural revolution" they were disbanded as "capitalistic" and "revisionist".

With the recovery and growth of the national economy since 1977, however, "big and all-embracing" and "small but all-embracing" enterprises have been increasingly falling behind the need for large-scale socialized production. In its Decision on Some Questions Concerning the Acceleration of Industrial Development (draft), the Central Committee of the Chinese Communist Party urged reorganization of industry in accordance with the principle of coordination based on specialization. It called for carrying out the tasks of standardization, serialization and generalization.

On the basis of unified planning, the production of enterprises of the same type should be readjusted to effect a division

of labour, so as to raise the level of specialization. The related enterprises in one locality, including those collectively-owned and commune-run enterprises which have the required capacity, should be coordinated into operations ranging from raw materials and semi-finished products to end products and centring on the production of one or a few kinds of goods.

Centres should be set up for repairs, tools supply, casting and forging, electroplating and heat treatment.

Multi-provincial or multi-trade joint corporations should be organized step-by-step on the basis of the development of specialized coordination.

After the decision was issued, industrial reorganization was carried out in Jiangsu and Sichuan provinces and some industrial departments. To gain experience, the State Economic Commission conducted pilot operations in Beijing, Tianjin, Shanghai, in Liaoning Province and elsewhere. Such pilot work included these five aspects: (a) investigating the actual state of the local industry and its problems, so as to determine the orientation of reorganization; (b) readjusting the affiliations of some enterprises to facilitate management in line with appropriate trades; (c) setting up a number of specialized corporations (or general plants); (d) further planning and reorganization within the corporations; and (e) setting up a few enterprise-like corporations on a trial basis.

Some industrial departments and regions set out to readjust and reorganize their industrial enterprises in a planned way in 1979 when the national economy entered the phase of readjustment. For instance, most of the major enterprises under the direct administration of the First Ministry of Machine-Building Industry were big and all-embracing plants with serious repetitions in production and construction. They drew up a plan for reorganization in the light of the actual situation. The principles they followed were: (a) selecting the best, based on customer and market appraisal; (b) reducing the wasteful repetitions in production and carrying out readjustment first in the same province or municipality with a view

to achieving a proper centralization of production; (c) supporting those plants that specialize in trying out technology, making accessories and doing repairs; and (d) giving preferential treatment to enterprises in remote regions and areas weak in the machine-building industry.

After one year's reorganization, the industrial enterprises were being organized under the principle of specialization, the number of small and scattered plants was decreasing and the irrational repetition of production was being reduced.

Take the production of automobiles for instance. Originally there were 130 plants making cars. By the end of 1979, the number was reduced to 100. Of the other 30, seven were producing motorcycles and 23 had either merged with others or had changed their line of production. In the city of Tianjin, formerly there was no coordination among five plants producing six types of motorcars. Now they have been reorganized to concentrate on producing Model-130 trucks. There were originally nine plants in the city of Wuhan making industrial boilers, resulting in serious repetitions in production. Now a general plant has been set up and eight plants have been reorganized into specialized plants. In addition to solving the problem of the repetition of production, this has raised the capacity for making complete sets of equipment.

Industrial reorganization has also been carried out with marked results in the province of Liaoning. There were 1,101 plants in the province affiliated with the First Ministry of Machine-Building Industry and the readjustment plan included 344 plants. By the end of 1979, some 192 plants had been readjusted. Eight had closed down, production of 16 kinds of products had been suspended, 39 plants had merged with others, and the production lines and affiliations of 145 plants had changed. After the readjustment, production capacity was cut by between 10 and 50 per cent for 35 products that had been produced in surplus of demand, whereas that of 77 in-demand products had been boosted by between 20 and 100-plus per cent. Specialized production in large batches was

organized to make cranes, forklifts, electrical meters, water meters, industrial chains and half dozen other products.

In 1980, the state strengthened its leadership over industrial reorganization on the principle of coordination based on specialization. It urged the rapid establishment of different types of enterprise-like corporations. It called upon the various provinces, regions and municipalities and the departments concerned to carry out the following tasks: (a) Map out overall plans for industrial reorganization in light of actual conditions and bring step-by-step all the "big and all-embracing" and "small but all-embracing" enterprises into the orbit of coordinated specialization. (b) Redouble efforts to readjust, consolidate and improve the existing specialized corporations to bring into fuller play the superiority of coordinated specialization and to create conditions for them to advance to enterprise-like corporations. (c) Build competently the 35 pilot enterprise-like corporations which the state in 1979 decided to launch. (d) Establish more pilot enterprise-like corporations. (e) Assist the departments concerned in working out policies favourable to industrial reorganization on taxes, prices, credit and sharing of products.

To organize industrial enterprises to achieve rationalization in the economy, the Central Committee of the Communist Party and the State Council laid down principles and policies to encourage economic association. At first they intended to organize all the enterprises into corporations, but that could not be done with one stroke. If it were forced through, the corporations would become another form of administrative control. Experience has proved that only through a great variety of economic associations can the existing enterprises be organized for rational specialized coordination to overcome the state of being "big and all-embracing" and "small but all-embracing". This coordination can stop the divorce between production and need, between production and transportation and between production and circulation. It can also overcome

the difficulties in the supply of capital, techniques, fuel, power, raw and other materials and in the marketing of products.

In July 1980 the State Council drew up the Provisional Regulations on Promoting Economic Association, which pointed out that association must be achieved out of an urgent need for the development of production and strictly on the principle of voluntary participation instead of administrative coercion. Association should be established through an integration of the initiative of the grass-roots organizations upward with the initiative from the higher agencies downward. It should be done step-by-step and methodically. The practice of rushing headlong into massive action must be avoided. Economic association should not be hampered by differences in locality, trade, ownership and affiliation, but it should not freely change the ownership, affiliation or financial relationship of the parties to the association. In effecting association, the principle of equality and mutual benefit should be observed. The forms of association should conform with reality. There can be a great variety of forms, and forced uniformity should be avoided.

One year's experience proved that economic association was not only favourable to reorganizing industry on the principle of specialized coordination, but also helped the various economic units bring their strong points into full play and avoid their shortcomings. It was conducive to increasing economic returns and speeding up production and construction. This was useful in channelling the financial power of the local enterprises to the fields urgently needed by the country's economic construction.

Thanks to its many advantages, once economic association was advocated it enjoyed rapid development. According to surveys made in the textile and other light industries and the handicraft industry in Shanghai, 140 joint enterprises were set up in the first half of 1980, among which 113 were handicraft enterprises, eight textile enterprises and 19 other light industrial enterprises. The city's handicraft industry also

signed nine contracts on compensation trade with Jiangsu, Zhejiang, Hunan and Jiangxi provinces and the Guangxi Zhuang Autonomous Region.

III. PROBLEMS AND SOLUTIONS

Although China's industry and transport achieved a great deal in the four years between 1977 and 1980, a few questions remained to be tackled. The main problems were:

(1) The production capacity of industrial enterprises was not being fully tapped.

In 1979 and 1980, the various localities' and departments' efforts to readjust industry had some positive results. But on the whole, the readjustment progressed slowly. A number of new enterprises were set up pointlessly when existing ones had not yet been consolidated. In 1979, although 3,600 enterprises were closed down, suspended operation, were amalgamated with others or switched to the manufacture of other products, the total number of enterprises in China still increased by 6,566 to reach 355,000 at the end of that year. Incomplete statistics compiled by ten provinces and municipalities including Shanghai, Beijing, Tianjin, Jiangsu, Liaoning and Sichuan, indicated that 4,110 enterprises were shut down or had suspended operation in the January-October period of 1980 while 13,611 new ones were built and went into production. This, coupled with other factors, increased the number of enterprises by a net 7,331 by the end of October 1980 as compared with the beginning of the year. Most of the new enterprises, having been added blindly, created needless overlaps. This, of course, added to the difficulties of industrial readjustment.

(2) Production in the energy-guzzling iron and steel plants was not reduced.

The 1980 output of steel was 37.12 million tons, or 4.12 million tons above the plan. Production was not curtailed and

more energy was consumed. Of the excess output, 2.407 million tons were produced by the key steel plants and 1.693 million tons by the medium-sized and small works. According to the calculations made by some departments, the medium-sized and small works consumed 5.2 tons of standard coal per ton of steel, or 3.23 tons more than the key plants. The excess steel output of the medium-sized and small works meant an additional consumption of 5.467 million tons of standard coal over the year. A similar situation existed in the chemical fertilizer industry.

(3) The machine-building industry was still expanding blindly.

The machine-building industry had a surplus capacity because of lack of production quotas assigned by the state. Many plants in fact were not operating or were operating at half capacity. Surveys showed that only one-third of the farm machinery plants were operating at full capacity in 1980 and only half of the available capacity was being used for the manufacture of air compressors, medium-pressure valves, petroleum equipment and other mining and general machinery.

While many old plants stood idle or operated at half capacity, a number of new plants were built without regard to this situation. According to statistics compiled by 20 provinces, municipalities and autonomous regions, more than 2,000 machinery plants were built in the January-October period of 1980. The Ministry of Light Industry originally designated 28 factories to make electric fans, but it turned out afterwards that 3,400 factories produced them. Originally 11 factories were designated to manufacture washing machines, but later more than 130 factories were engaged in this manufacture. Originally, 9 plants were designated to make refrigerators, but later 36 plants were making them. Air conditioners were originally manufactured by 20-odd plants under the light industrial departments, but other departments later added 42 air-conditioner plants. Adding these to the plants run by the

localities brought the total number of air-conditioner manufacturers to 130.

(4) While some of the textile and other light industrial plants had production capacity to spare, many small factories vied with one another to start operations.

For instance, the production capacity of our cotton mills was already more than enough to process the domestic supply of raw materials. A huge quantity of cotton had to be imported every year. However, many more cotton mills were started. In 1979 alone, 180 cotton mills were built under the Ministry of the Textile Industry, and 808 small ones were added by rural communes, production brigades or teams. The number of cotton spindles increased by 1.02 million in 1979 over the preceding year. Incomplete statistics in 1980 showed that an additional 146 small cotton mills were built by communes and counties, and the number of cotton spindles again rose by 1.17 million over the 1979 figure. Other mills with a total of 2.46 million spindles were under construction.

With regard to the cigarette industry, 83 factories were listed in the national plan with a combined capacity to produce 15 million cartons a year. Their yearly output was only 13 million cartons in 1979 owing to a lack of raw materials. However, many small factories which were not included in the state plan were opened, with a combined capacity of some two million cartons in 1979, and more were added the following year. Small factories were set up in the tobacco growing areas, leading to a drastic cut in the amount of tobacco shipped to other places. The years since 1978 saw a steadily declining amount of tobacco shipped to other areas from China's four major cured tobacco producers — Henan, Shandong, Yunnan and Guizhou.

The tanning industry serves as an example, too. In 1979, as much as 29 per cent of the equipment lay idle because of an insufficient supply of raw skins and hides. But a number of small tanneries were added in 1980. Jilin Province alone built 80. The original big factories were thus compelled to

manufacture other products. An estimated 30 per cent of the raw cattle hides were used by the small tanneries and commune- and brigade-run shops annually.

This was also the case with the blind expansion of small factories making wines, tea, silk, soap, paints, rosin and paper.

(5) Quite a few heavy industrial products were overstocked.

At the end of 1979, the inventory of 16 major raw materials and mechanical and electrical products was valued at 86.3 billion yuan. The amount of rolled steel in stock continued to rise in 1980. It had reached 19.1 million tons by the end of November, 170,000 tons more than the amount at the end of 1979, or 3.6 million tons more than that at the end of 1978. The inventory of machinery and electrical products rose by an annual sum of 5.8 billion yuan in value from 1977 to 1979. Another increase of 600 million yuan was registered at the end of June 1980. A survey of 105 enterprises showed that the mechanical and electrical products in steel were sufficient to meet the needs for 18 months, based on the actual amount installed and in operation in 1979. It was estimated that 32 per cent of such products had been overstocked for a long time, 15-30 per cent of which was of such poor quality as to be useless.

(6) Transport and communication services became particularly weak links in the chain of the national economy.

Judging from the economic development at home and abroad, the freight volume generally rises faster than the total industrial and agricultural output value. That means the ratio between the growth rate of freight volume and that of industrial production is generally higher than 1. In China, this ratio was 0.6 in 1966-75, and 0.4 in 1976-80. Because the growth rate of freight volume was lagging behind that of the national economy, the main trunk railway lines had to restrict the volume of goods loaded and transported, and a growing number of sections became bottlenecks, especially for the transport of coal. For instance, upwards of 10 million tons of coal in

Shanxi were kept waiting for shipment, huge amounts of coal were also held up in northern China, the northwest and southwest, as were large quantities of phosphorous ore in the southwest and pyrite in the northwest.

The lack of loading and unloading capacity in coastal ports caused foreign ships to spend a longer time than necessary in port. This cost China more than 80 million U.S. dollars in 1978, and over 100 million dollars in 1979, equivalent to two-fifths of the country's investment in harbour construction that year. Our ocean-going fleet could handle only 73 per cent of the cargo that needed transport, and the amount of foreign exchange paid to charter foreign ships a year was enough to buy ships with a combined capacity to carry 600,000 tons of cargo.

Besides, traffic jams and congestion developed so much on the inter-city and suburban roads that the volume exceeded their designed capacity several-fold. The rural areas depended on hand-operated wheelbarrows, animal-drawn carts and tractors for transportation. Passengers found it difficult to book seats on trains, boats or buses. Passenger coaches on the main railway lines were often running one-third overloaded, the suburban trains were running with double loads, and the river steamers were carrying generally 20 per cent more passengers than their designed capacity.

(7) The scale of capital construction was still too large.

Capital construction was curtailed and many projects were dropped. But the investment needed for the projects yet to be completed was not reduced. Although the budgeted capital construction investment for 1980 was cut by one-third, the funds collected by the localities, foreign funds and bank credits used in capital construction rose by a large margin. The budgeted investment in capital construction completed at the year's end was 25 per cent less than the previous year's, but the capital construction investment made outside the budget rose by 150 per cent over the year before. The sum total was 7.9 per cent above the preceding year. In the same period,

work started on numerous small projects. According to statistics compiled by 12 provinces, municipalities and autonomous regions, including Beijing, Hebei, Liaoning, Jilin, Shanghai, Sichuan, Yunnan and Ningxia, more than 27,000 small projects were under construction in 1980, a rise of 24 per cent over 1979. The plan for the completion and operation of big and medium-sized projects (including individual items) and increasing production capacity in the year was not fulfilled. Eighty-two big and medium-sized projects and 216 individual projects were completed and commissioned, the former being 46 less than the year before and the latter 124 less. The rate of completion and commissioning of big and medium-sized projects came down to 8.3 per cent from 9.7 per cent in 1979. Of the 34 major products listed in the state plan, 16 failed to reach the planned new production capacity.

(8) Management was inadequate, economic results were poor.

Inadequate management techniques had the following consequences:

The amount of energy and raw materials consumed in production was high. A survey was conducted of more than 500 key enterprises under the metallurgical, power, petroleum, coal, chemical, building materials, textile, light industry, machine-building, railway and communication departments. It indicated that for 74 material consumption quotas between January and November 1980, 24 quotas or 32 per cent rose above the level attained in the corresponding period of 1979. Of the 63 quotas for the fields that had recorded previous lowest levels of material consumption, 30 quotas or 47.6 per cent were higher than the best records. Consumption was still very high in small enterprises. Take small nitrogenous fertilizer plants for example. Some 144 small plants, or 10.5 per cent of all the plants, consumed more than 4,000 kg of coal as raw material and fuel and 2,000 kwh of electricity for every ton of ammonia they produced.

Enterprises failed to turn over enough profits to the state.

Total profits turned over by the state-owned industrial enterprises in 1980 (including the fees charged for the use of fixed assets and circulating funds) came to 99.4 per cent of the budgeted plan, a 1.3 per cent reduction from the previous year's. Before 1978, generally 95 per cent of the actual profits were turned over. But the percentage dropped to 87.9 in 1979, and 81.8 in 1980.

Too many funds were being used for circulating purposes. At the end of 1980, the state-owned industrial enterprises had 113.6 billion yuan of circulating funds in their operating budgets, equivalent to 30.1 per cent of the total industrial output value that year. In production units, some of the overstocked products were moved from the production column in the budget to the circulation column, so their quotas for the purpose of taxes and profits were met, and their workers were given bonuses, for that matter. But these goods had yet to flow into the market places, and were actually piled up in the warehouses.

Cost of comparable products rose. The rate of reduction in the cost of comparable products between two successive years was 4.9 per cent in both 1977 and 1978, but it came to a mere 0.9 per cent in 1979. In 1980, the state demanded that industrial enterprises lower the cost of comparable products by 4 per cent, and the budgeted quota was just 2 per cent. However, the actual cost rose by 0.4 per cent. This was attributable to poor management and huge administrative expenses in the enterprises, apart from the price increase for raw materials, pay raise for the workers and staff and subsidies for non-staple foodstuffs. Another factor in some units was the excessive issuance of bonuses.

Some attempts to reverse deficits met with success, but they still fell short of their targets. In 1980, the industrial enterprises only fulfilled 61.2 per cent of the yearly quota for reversing deficits, while the actual sum of deficits exceeded the plan by 18.5 per cent. Some enterprises no longer incurred losses that year, but some others joined the list. The number

of losing units still constituted 23.3 per cent of the total enterprises, which was 0.6 per cent higher than the 22.7 per cent at the end of 1979. This was mainly caused by the under-capacity operation of the machine-building, farm machinery and defence plants.

To solve these problems, it was necessary to continue to implement the policy of readjustment, restructuring, consolidation and improvement. The main tasks were to focus on readjustment, ensure the fulfilment of the plans for industrial production, transport and communication services and capital construction, strive to increase production and practise economy, increase revenues and retrench expenditures, and improve economic results. The main solutions were as follows:

(1) Tapping the full potential of the existing enterprises. Following three decades of economic construction, our foundation was not poor. The state-owned enterprises held a total of close to 900 billion yuan's worth of assets, of which over 500 billion yuan were fixed assets and over 300 billion circulating funds. But these assets were not used efficiently, leaving a great pool of potential to be tapped. Take the utilization of fixed assets. The profit realized from every 100 yuan of the original value of fixed assets in the state-owned industrial enterprises was 23.6 yuan for the maximum (in 1957) and 21.1 yuan for the minimum (in 1955) during the First Five-Year Plan period, but it dropped to 16.2 yuan in 1979. The maximum output value yield for every 100 yuan of the original value of fixed assets was 151 yuan (in 1956) and the minimum was 131 yuan (in 1955), but it dropped to 103 yuan in 1979. Take the utilization of the circulating funds. During the First Five-Year Plan, the maximum sum (in 1953) of circulating funds for every 100 yuan of output value in the state-owned industrial enterprises was 22.2 yuan and the minimum was 17 yuan (in 1956), but it shot up to 31 yuan in 1979. The yield in taxes and profits from every 100 yuan in the state-owned industrial enterprises averaged 31.9 yuan during the First Five-Year Plan period, but it came down to 24.8 yuan in 1979.

To compare the performance of the different departments and regions: the output value per 100 yuan of fixed assets in 1978 was close to 265 yuan in light industry and 74 yuan in heavy industry; it was 288 yuan in Shanghai, 106 yuan in Liaoning, 86 yuan in Sichuan, and 57 yuan in Guizhou. All this showed the enormous potential of our industrial enterprises. Efforts were being made to tap this potential by improving economic performance through such measures as readjusting the structure of the economy, improving management and introducing reforms in a systematic and planned way.

(2) Continuing to promote the expansion of light industry. To better meet the market needs, re-absorb currency and increase revenues, the expansion of light industry must be continued to turn out more readily marketable products. To expand light industry, emphasis was put on addressing the following problems:

a) The need to expand the sources of raw materials. The development of light industry was limited by the supply of raw materials, most of which comes from agriculture. Therefore, to further develop light industry, it was necessary, apart from increasing industrial raw materials, to pay more attention to developing agricultural raw materials. More sources of supply needed to be found by developing raw materials producing bases, setting up on a trial basis associated enterprises embracing agriculture, industry and commerce, importing some raw materials, and processing supplied materials and undertaking compensation trade.

b) The need to work out overall plans and strengthen controls. The defence and heavy industrial departments and rural communes and their subdivisions were all expanding their production of light industrial goods. This, of course, meant an increase in the supply of commodities. But pointless expansion must be avoided. The light industrial departments at different levels should be empowered to work out overall plans and exercise controls in this field. They should make arrangements according to the principles of economic feasibility.

lity, balance between supply, production and sales, and co-operation between specialized units.

c) The pressing task of improving technical equipment for light industry. Major losses were sustained when large quantities of animal by-products and aquatic products rotted because of the lack of processing, refrigeration and other necessary facilities and equipment.

(3) Grasping the readjustment of the machine-building industry. The machine-building industry accounted for 29.8 per cent of China's total number of industrial enterprises, 27 per cent of the output value, 28 per cent of the total number of workers and staff, 20 per cent of the scientific and technical force, 27.8 per cent of the fixed assets, and 27 per cent of the profits. Modern industry cannot be established without a modernized machine-building industry. The readjustment of the machine-building industry required the solution of the following problems:

First came the problem of quality. The poor quality of our machinery products was attributable to the low level of industry because many of the past 30 years were not devoted to construction in real earnest. But the years 1979-80 saw an improvement in the quality of products, and this showed that this problem could be solved with some effort. Large quantities of foreign equipment were imported in those two years, which had an adverse effect on the development of our machine-building industry, especially on heavy machinery and automobile production. On the one hand, the ideological problem of underestimating China-made machinery products had to be solved for, as a matter of fact, some of our products were of top grade by world standards. On the other hand, a number of key products had to be developed without fail, such as huge power generating units, thermal and hydraulic, 500,000-volt high-tension power transmission and transforming equipment, huge openpit coal mining equipment, metallic ore mining equipment, metallurgical equipment, precision machine

tools, precision metres and instruments. We must try our best to make them reach advanced levels as soon as possible.

Next was the problem of service orientation. The machine-building industry used mainly to serve the capital construction and heavy industry. After the curtailment of capital construction investment began in 1979, the proportion of investment going to heavy industry declined and the planned quotas for the machine-building industry were drastically cut. Consequently, many enterprises were not operating to full capacity. Thus the machine-building industry had to shift the focus of its production to serving the needs of textile and other light industries, to processing farm produce and animal by-products and to facilitating technological changes in existing enterprises. The fixed assets depreciation funds in the state-owned enterprises averaged nearly 20 billion yuan a year — a sum which must be turned to good account to restructure the industry as a whole in a planned way.

Further, there was the problem of coordination between specialized units. Many of the machine-building enterprises were big and all-embracing or small but all-embracing; the more than 100,000 enterprises were under 25 departments, separate from one another. This presented many unnecessary obstacles to the development of the machine-building industry. In the period of economic readjustment, the machinery plants should be amalgamated and reorganized under the principle of coordination between specialized units and economic feasibility so as to bring the role of the machine-building industry into full play.

(4) Striving to economize on energy. The difference between the energy supply and the energy demand was enormous. The resolution of this problem depended mainly upon economizing on energy use. There was a great potential to do so. In 1965, every 10,000 tons of energy yielded 6.83 million yuan of national income, but only 5.41 million in 1979, a 21 per cent drop. If our energy utilization can reach the 1965 level by 1985, then the domestic primary energy re-

sources will by and large be able to meet the demand. Energy conservation should be conducted by the following means:

a) Speedily expanding light industry which consumes less energy and strictly containing the energy-guzzling heavy industry. A lion's share of our energy was being used by heavy industry. In 1978, energy consumption was divided as follows: 55 per cent for heavy industry, 8 per cent for light industry, 11 per cent for agriculture, 5 per cent for transport, 8 per cent for building trades, and 13 per cent for private homes and personal use, both urban and rural. But the proportions were not justified by national income: 29 per cent came from heavy industry, 18 per cent from light industry, 35 per cent from agriculture, 4 per cent from transport, and 14 per cent from the building trades and commerce.

A given amount of energy yields vastly different economic results, depending upon whether it is used in heavy industry, light industry or agriculture. In 1978, every 10,000 tons of energy produced 2.69 million yuan in net output value in heavy industry, 83 per cent less than the 16.28 million yuan in agriculture, and 78 per cent less than the 12.04 million yuan in light industry. Statistics compiled by Shanghai in 1979 showed that every 10,000 yuan's worth of energy yielded 7 million yuan in taxes and profits in the city's industrial enterprises. The sum was 2.06 million yuan for the metallurgical bureau, 4.38 million for the chemical industry bureau, 22.02 million for the handicrafts bureau, 16.47 million for the light industry bureau, 12.54 million for the textile bureau, 14.95 million for the machinery and electrical bureau, and 28.18 million for the meters and instruments bureau.

b) Adjusting the structure of small industries, particularly the small heavy industrial plants. Small light industrial factories should be expanded, provided they do not compete for raw materials with the big factories.

Most of our industrial enterprises are small ones. The net output value of small industrial enterprises amounted to 64.9 billion yuan in 1978, constituting 23 per cent of the national

income. They consumed 200 million tons of energy, or 33 per cent of the total energy consumed by the whole country.

The net output value of small heavy industrial plants produced 10 per cent of the national income, while their energy consumption came to 29 per cent of the nation's total. Every 10,000 tons of energy produced 1.71 million yuan in output value, or 57 per cent less than the 3.95 million yielded in big and medium-sized heavy industrial enterprises.

The net output value of small light industrial enterprises contributed 13 per cent of the national income and their energy consumption came to merely 4 per cent of the nation's total. Every 10,000 tons of energy yielded 16.8 million yuan in output value, a full 140 per cent higher than the 7.11 million yuan produced in big and medium-sized light industrial enterprises.

The net output value produced by every 100,000 tons of energy in small light industrial enterprises was 9.8 times the sum produced in small heavy industrial enterprises. Long-time stress on small heavy industrial plants led to a poor organization of our small industrial enterprises and a shocking waste of energy. For instance, the coke ratio per ton of iron in the small iron and steel works was 39 per cent higher than that in the key plants, and the energy consumption per ton of synthetic ammonia in small nitrogenous fertilizer factories was 120 per cent higher than that in large chemical fertilizer plants. This must be changed through a complete reorganization.

c) Changing the product mix.

It often happens that different products, though they are similar in quantity and uses, consume greatly varying amounts of energy in their production. For instance, every ton of nitrogenous fertilizer consumes more than twice as much energy to produce as does every ton of phosphate fertilizer. China's chemical fertilizer industry mainly produces nitrogenous fertilizer. The ratio between the output of the nitrogenous, phosphate and potash fertilizers in 1979 was 1:0.21:0.002 (the ratio in other countries was 1:0.6:0.5). This

not only affected our agricultural production but also increased energy consumption. In the building materials industry, new building materials that could be manufactured with relatively less energy were produced in far smaller quantities than traditional building materials (such as the age-old-type bricks and tiles) whose production requires much higher energy consumption. Most of our underground water mains are made of cast iron pipes. If they had been replaced by cement pipes, it would have saved about 70 per cent in energy consumption. Again, most products of our machine-building industry such as machine tools, farm machines and sewing machines are made of castings. If they had lighter structures, this would save both metal and energy.

d) Strengthening management, carrying out technological advancement and raising the energy utilization ratio.

A considerable portion of our industrial equipment, installations and technological processes comes from the 1940s or 1950s, and wastes enormous amounts of energy. At the end of 1979, industrial boilers (not including power station boilers) consumed over 200 million tons of coal and over 7 million tons of oil. Their average heat efficiency was 50 per cent, or 20 per cent lower than the level attained abroad. Raising the efficiency to 70 per cent would save 40 million tons of coal and 1.4 million tons of oil a year. One-fourth of the generators in the power stations across the country were of the medium- and low-pressure types. They consumed 70 per cent more coal than the high-pressure generators did, which meant an additional consumption of 25 million tons of coal a year. The oil-fueled machines for civilian use totalled 350 million h.p., consuming upwards of 25 million tons of diesel oil a year. Owing to the outdated structure and poor performance of the internal combustion engines, their oil consumption was 10-20 per cent higher than the advanced levels attained in foreign countries. This led to an additional consumption of 3.6 million tons of oil. The efficiency of China's power-driven equipment was generally 3-10 per cent lower than that in other

countries, and it consumed over 20 billion kwh more electricity annually. Residual heat resources totalled more than 30 million tons, but only less than 20 per cent of them were used. Motor vehicles for civilian use also consumed 2-3 million more tons of oil than needed because of low efficiency resulting from scattered operations and management and empty runs.

(5) Further curtailing capital construction and redirecting the use of investment. It was imperative to further curtail capital construction. Total capital construction investment for 1981 was cut down to 30 billion yuan from the originally estimated 55 billion. We had to resolutely suspend projects (including imported ones) which lacked the necessary conditions for construction or for production after completion. Overlapping projects which competed with existing enterprises for raw materials, fuel and power also had to be suspended. We had to concentrate investment on projects which could meet urgent production needs, on projects and auxiliary items which could be completed and commissioned in a short time, and on the construction of housing and public utilities in the cities.

Further steps should also be taken to redirect the use of investment. In the years 1979-80, except for the accelerated expansion of the textile and other light industries, the direction of investment on the whole was still far from rational. Many of the projects that were undertaken would increase the capacity of the processing industry and of the industries in which products were in excess of demand; only a smaller number would add to the capacity of the energy industry and of the industries in which products were in short supply. Metallurgical and chemical projects still claimed a big share of the investment in heavy industry. According to September 1980 statistics, of the investments needed for the planned big and medium-sized projects yet to be completed, 4.1 per cent were in agriculture, forestry and water conservancy; 5.4 per cent were in the textile and other light industries; and 75 per cent were in heavy industry. The needed investment in heavy industry broke down into 22 per cent for the metallurgical

industry, 10.6 per cent for the chemical industry and 9.7 per cent for transport and communication services. Culture, education, health and urban construction took up only 0.4 per cent of the total investment. An important cause of our economic failings was that the energy industry and the transport services could not meet the needs of economic development. Some 30 per cent of our production capacity lay idle owing to energy shortages. But many of the projects under construction — especially the 22 imported projects — were in the energy-guzzling processing industry. This ran counter to the pressing need to increase the number of projects in crucial areas such as coal, power and petroleum industries and transport. In 1980, investments in the petroleum industry increased slightly but the investments in the coal and power industries and railway department were less than the year before. Therefore, it remained an arduous task to redirect the use of investments.

There should also be better results in capital construction investment. One important measure was to overcome the tendency to pay attention only to new construction projects while attaching not much importance to upgrading existing enterprises. Because our original industrial foundation was poor, for a period after the founding of our People's Republic it was necessary to allocate most of capital construction investments to new projects. But, during the First Five-Year Plan period, the reconstruction and expansion of existing enterprises used a big proportion of money allotted to the industry. In the subsequent years, however, our investments in new projects increased instead of being reduced, and the upgrading of the technology and equipment of the original enterprises was neglected. This was a major factor behind the poor investment results. Compared with what is involved in the building of new enterprises, the updating of existing enterprises by providing them with advanced technology and equipment usually requires less investment, gains quicker results, achieves higher labour productivity and lowers production costs. With nearly 400,000 enterprises (not including those run

by communes and their subdivisions), our industry in 1980 had a fairly solid foundation. The shift of our investment focus onto providing existing enterprises with advanced technology was necessary to bring into full play their role as base areas for the realization of modernization.

Chapter VI
COMMERCE

by Wan Dianwu

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COMMERCE in the People's Republic of China has an important position in the national economy as a bridge between industry and agriculture, production and consumption and the cities and the countryside. Between 1977 and 1980, commerce developed considerably after the Chinese government adopted a number of new policies to strengthen it. This chapter will discuss four aspects of commerce in China in those four years: improvement of the commodity supply along with the economic readjustment; an initial reform of the commodity supply system and the readjustment of related policies; means of production entering the market as commodities; basic stability and some adjustments of commodity prices.

I. ECONOMIC READJUSTMENT AND IMPROVEMENT OF COMMODITY SUPPLY

Since the founding of the People's Republic in 1949, the commodity supply has risen along with the living standards of the Chinese people. The total value of retail commodities in 1949 was 14.05 billion yuan whereas in 1980 the figure increased 14.2 fold to 214 billion yuan, with an average annual growth of 9.2 per cent. In 1949 every Chinese bought an average of 26 yuan worth of commodities and in 1980 the figure was 219 yuan, a 7.4 fold increase, averaging 7 per cent per annum.

Natural economy played a predominant role in poverty-stricken old China which was a semi-feudal, semi-colonial society. Commodity production and circulation were therefore underdeveloped. In comparison with old China, the commodity retail sales in the People's Republic do look impressive. Yet, the consumption level is still rather low as

China is a developing country with a weak economic foundation and a large population, 80 per cent of which is in the countryside. Furthermore there is the persistent state of commodity supply failing to meet the demand, which calls for serious consideration.

1. COMMODITY IN SHORT SUPPLY AND ITS CAUSES

In the early days of the People's Republic, especially during the First Five-Year Plan period (1953-1957), there was a steady increase in the supply of commodities. The total retail sales in 1957 reached 47.42 billion yuan, a 71.3 per cent increase over the 27.68 billion yuan mark of 1952, with an average annual increase of 13.5 per cent. In that period, the market was well stocked with commodities, prices were stable and people's lives were getting increasingly better. However, after 1958, while retail sales continued to increase, a shortage of commodities persisted. Some people think that when the supply falls short of the demand it is a good thing, for it makes promotion unnecessary. Some even deem this state of affairs an indication of the superiority of the socialist system. But practice has proved this view false. When commodity supplies are unable to meet the demand, this is a negative factor to production, distribution, exchange and consumption. When some enterprises encounter no trouble selling their products, they tend to indulge themselves in increasing the quantity of products and show little interest in increasing the variety and improving the quality of their products. Some even rush to produce shoddy goods. "A princess has no trouble finding a husband," as the saying goes. With this mentality, the commercial enterprises also neglect their services to customers. Unable to buy enough satisfactory things, consumers sometimes must even endure price rises or camouflaged price hikes. Particularly noteworthy is that a shortage of commodity supplies interferes with the proper implementation of

the socialist principle of distribution, to each according to his work. That is to say, when commodities are in short supply, money is not the only means of obtaining commodities. While the law-abiding majority cannot buy with their money the commodities they need, some persons might use power or fraud to gain material interests far above their legitimate income. Obviously, commodity supply being short of demand is by no means an indication of the superiority of socialism, for it is by no means the necessary outcome of the socialist system but the result of faulty policies and planning that violate objective economic laws.

A shortage of commodity supply does not mean merely the shortage of goods of certain varieties or specifications while that type of commodity itself is in adequate supply, nor a temporary shortage of one commodity in one place while it is overstocked in another place. It means that quite a number of commodities are in short supply over a long period of time so that queuing up to buy under-supplied goods is common.

In China, the balance or imbalance between commodity supply and demand is usually determined by judging the balance between the total commodities for supply and the social purchasing power. For 19 of the years between 1950 and 1980, the availability of commodities nationally fell short of the national purchasing power, which meant that the commodity supply was lower than the demand. Even after the government took a series of measures to offset the shortage by increasing production, decreasing stockpiles and limiting government institutions and state-enterprises' purchase of consumer goods, there were still ten years when the buying power exceeded the stock of commodities.

The primary reason for this shortage has been a disproportion within the national economy. The social purchasing power in this country consists mainly of office and factory workers' wages and of farm produce sold by the peasants, which account for about 80 per cent of the total social purchasing power. Therefore, the society's ability to purchase com-

modities is determined mainly by the state plan for wages and the state purchasing prices for farm produce. In addition, some budgetary expenses and bank loans also contribute to the social purchasing power. The supply of commodities is determined mainly by the scope and speed of the growth of industrial and agricultural production, particularly by the ratio between industry and agriculture and that between light industry and heavy industry. For many years after 1958, the effort to seek an all-round balance in the economic planning was neglected, resulting in an imbalance between accumulation and consumption, among agriculture, light industry and heavy industry, between budgetary revenues and expenditures and between bank cash income and outlay. This inevitably resulted in a supply of commodities that fell short of demand. During the "great leap forward" in 1958, an overly eager desire for a high rate of accumulation and a lop-sided emphasis on heavy industry led to an inappropriately rapid expansion of the scale of capital construction, and a sharp increase in payrolls and a budgetary deficits. This, plus the serious disruption of agriculture, caused a serious imbalance of the national economy and an accompanying serious shortage of commodity supply.

During the "cultural revolution" between 1966 and 1976, the proportionate development of different branches of the national economy was further undermined as a result of the absurd policies pursued by the "gang of four", who advocated that "need is plan" and that "deficits should be taken as a positive balance." That inflicted grave losses on the national economy. And there lies the fundamental cause for the shortage of commodity supply in recent years.

2. A STEADY IMPROVEMENT OF THE SUPPLY OF COMMODITIES IN THE LAST FOUR YEARS

Since the "gang of four" was crushed in October, 1976, and particularly since the third plenary session of the 11th Central

Committee of the Chinese Communist Party was held in December, 1978, a series of major policy decisions and concrete measures have been taken to boost commodity production and increase the supply. The 1980 total retail sales reached 214 billion yuan, or 59.8 per cent more than the 133.94 billion yuan in 1976. In the four years, the annual increase averaged 20 billion yuan, amounting to a 4.4 fold increase as compared with the average annual increase in the previous 19 years (1958-1976). Details of the increases in the last four years are as follows:

| year | total retail sales (billion yuan) | net increase over previous year (billion yuan) | annual increase rate (per cent) |
|------|--------------------------------------|--|------------------------------------|
| 1976 | 133.94 | 6.83 | 5.4 |
| 1977 | 143.28 | 9.34 | 7.0 |
| 1978 | 155.86 | 12.57 | 8.8 |
| 1979 | 180.00 | 24.14 | 15.5 |
| 1980 | 214.00 | 34.00 | 18.9 |

The retail sales of food, clothing and other consumer goods have all grown in the four years between 1977 and 1980.

Among the foodstuffs, although grain and cooking oil have continued to be rationed, the size of rations has grown in some localities. The monthly ration of cooking oil in Liaoning Province, for instance, was cut from five liang (250 grammes) to three liang (150 grammes) during the "cultural revolution" but was raised again to five liang in 1980. A very obvious change has taken place in the supply of pork, eggs, sugar, wines and spirits. The supply of these things began to improve in 1977 and 1978 and rationing of them was ended in virtually the whole country by 1979. In 1980, the annual con-

sumption of pork per person was 28.7 kilogrammes in Beijing, 27.85 kilogrammes in Shanghai and 24.6 kilogrammes in Tianjin. The figure for the medium-sized and small cities generally surpassed 15 kilogrammes, a marked increase over previous years. Changes in the retail sales of these commodities between 1976 and 1980 were:

| Commodity | unit | 1976 retail sales | 1980 retail sales | increase 1976-1980 | rate of increase (per cent) |
|------------------------|-----------------|-------------------------|-------------------------|-----------------------|-----------------------------------|
| pork | million head | 96.563 | 130 | 33.437 | 34.6 |
| eggs | million tons | 0.34395 | 0.6079 | 0.264 | 76.7 |
| sugar | million tons | 2.067 | 3.635 | 1.568 | 75.9 |
| cigarettes | million | 10.564 | 15.932 | 5.368 | 50.8 |
| alcoholic beverages | million tons | 2.328 | 3.342 | 1.014 | 43.6 |

In the category of clothing, there was an improvement in both quantity and quality. Although the ration of cotton cloth has not been increased, as cloth made of all-synthetic materials or a blend of synthetic and natural fibres is no longer rationed, more textiles are available to the people. In 1980, the total retail sales of cotton cloth was 7.19 billion metres, an average of 7.4 metres per person, whereas the 1976 figure was 5.95 billion metres, an average of 6.4 metres per person. This indicates that the individual consumption of cotton cloth in the period remained steady, but there were sharp increases in the consumption of all-synthetic material, cloth of cotton-

synthetic blends, woollen piece goods, silks, woollen knitting yarn and leather shoes.

| commodity | unit | 1976 retail sales | 1980 retail sales | increase 1976-1980 | rate of increase (per cent) |
|-------------------------------|----------------------------------|-------------------------|-------------------------|-----------------------|-----------------------------------|
| all-synthetic cloth | million metres | 580 | 1,210 | 630 | 108.6 |
| polyester- cotton cloth | " | 480 | 1,440 | 960 | 200 |
| woollen fabrics | " | 59.136 | 142.21 | 83.074 | 140.5 |
| silks | " | 237.031 | 441.59 | 204.559 | 86.3 |
| knitting wool | million kilo- gram- mes | 23.589 | 44.714 | 21.125 | 89.6 |
| leather shoes | million pairs | 67.34 | 169.24 | 101.9 | 151.3 |

The sales of the commodities listed in the above chart did show sharp increases, yet their supply was still very sparse, and they were sometimes out of stock. This is an indication that people's income increased and that many people, particularly the young people, desired better garments.

As for other consumer goods, in addition to the sharp increases in the three traditionally major commodities — wrist watches, bicycles and sewing machines, as well as cameras and radios, geometric increases were recorded in the sales of luxury items such as TV sets, cassette recorders and electronic calculators. A total of 3.64 million TV sets were sold in 1980

as against 0.232 million sets in 1976, a 14.64 fold increase. Such drastic increases are seen in the following chart:

| commodity | unit | 1976 retail sales | 1980 retail sales | increase 1976-1980 | rate of increase (per cent) |
|----------------------|----------------|-------------------------|-------------------------|-----------------------|-----------------------------------|
| sewing machines | million set | 3.299 | 6.65 | 3.421 | 105.9 |
| watches | " | 10.517 | 25.34 | 14.823 | 140.9 |
| bicycles | " | 6.2 | 11.86 | 5.66 | 91.3 |
| transistor radios | " | 8.026 | 26.42 | 18.394 | 229.2 |
| televisions | " | 0.232 | 3.64 | 3.408 | 1,469.0 |

As a result of the production developments and income increases, the Chinese people's need for commodities have changed markedly. And the trend of such change is receiving daily attention from the concerned departments in their market analyses and investigations.

3. READJUSTMENT OF THE ECONOMY WITH GREATER EMPHASIS ON THE DEVELOPMENT OF AGRICULTURE AND LIGHT INDUSTRY — VITAL TO THE IMPROVEMENT OF COMMODITY SUPPLY

Experience has taught us that if we want to achieve a balance between commodity supply and market demand with a comparatively ample supply of commodities on the market and a steady improvement of people's living standards, we must establish an appropriate ratio among the major departments of the national economy, namely, a rate of accumulation in conformity with the actual conditions of this country and a reasonable balance among agriculture, light industry and heavy

industry. In face of the present lack of supply to meet demand, the only way is to readjust the ratio among these departments, to promote agriculture and light industry and to control the growth rate of purchasing power so that the shortage is eased and balance achieved.

Here we would like to give some illustrations of the actual results of economic readjustment from the perspective of the market manifestations in 1979 and 1980.

An outstanding change in the supply in 1979 was that the shortage of pork and other foodstuffs was greatly eased and rationing was ended in most cities — a heartening phenomenon never seen in the decade or so following 1965. The key to this tremendous change was the readjustment and implementation of the Party's economic policies for the rural districts, which greatly accelerated the recovery of the rural economy. In accordance with the decisions passed at the third plenary session of the Party's 11th Central Committee, two Party documents on agriculture were published to encourage the simultaneous development of a multiple economy with grain production as the key link and to urge active development of animal husbandry by the collectives while continuing to encourage individual commune members to raise livestock. Meanwhile, the state raised the purchasing prices of 18 farm products by big margins (including pork, beef, mutton and eggs), thus firing the enthusiasm of the commune members to raise and sell livestock and poultry. Toward the end of 1979, the number of pigs in stock reached 319.71 million head, or 18.42 million head more than in 1978. Considering the rapid development of livestock and poultry, the commercial departments did very well in the purchase and marketing of these commodities, which greatly supported production and markedly improved the supply of meat on the market. The 1979 state purchase of pork, beef, mutton, poultry and eggs was 16.7 billion yuan, a 48.6 per cent increase over that of 1978. The 1979 state purchase, marketing, allocation and stockpile of hogs by the commercial departments all hit an all time

high. That year, 130.04 million head of hogs were purchased. That was 21.55 million head more than in 1978. Further, the hogs purchased in 1979 were of a heavier weight, averaging an increase of six kilogrammes per head, which alone was equivalent to an increase of 10 million head of hogs purchased over the previous year. The 29 per cent increase in the number of hogs and their body weight over the previous year amounted to an additional more than 30 million head of hogs purchased. The commercial departments in 1979 sold 122.09 million head of hogs (pork was sold, but for convenience of comparison, the pork figures were converted to numbers of hogs), or 17.70 million head more than in 1978. The dressed meat per head in 1979 was 3.05 kilogrammes more than that in 1978 and this alone was equivalent to an additional 8.2 million head sold. The increase of the number of hogs plus the increase in the dressed weight meant an increase of more than 25 million head of hogs sold in 1979, over the previous year, or an increase of 29 per cent. On the basis of such increases in both the purchasing volume and marketing volume, pork trade was generally allowed in the rural market-places, with prices stable and in many places close to the slated prices at state stores. Pork is no longer rationed in all the big and medium-sized cities and most of the industrial and mining districts. Even in the few localities where pork is still being rationed, the rationed amount has been increased. In northeast and northwest China, where pork is in short supply, shipment from other parts of the country has increased and supply has shown marked improvement. Since pork is a "trump" among the non-staple food on the Chinese market, the elimination of pork rationing has brought about a profound change in the country's food market. By the end of 1979, the pork stock including live hogs by the state commercial departments reached 22.06 million head, or 28 per cent more than at the end of 1978. All the cold storages were full — a positive situation that had not occurred for many years.

An outstanding change in the Chinese market in 1980 was the sharp increases in the supply of light industrial goods. The 1980 state purchase by commercial departments of textiles and other manufactured goods amounted to 70.93 billion yuan, a 14.1 per cent increase over the 62.18 billion yuan of 1979, a margin of increase rare in recent years. The increases of specific products purchased were: synthetic fibre fabrics, 87.6 per cent; polyester-cotton cloth, 58 per cent; knitted cotton underwear, 54.3 per cent, leather shoes, 43.5 per cent; thermos flasks, 34.7 per cent; soap, 11.6 per cent; sewing machines, 27.9 per cent and watches, 24.3 per cent.

The main reason for this good situation has been the change in the relative emphasis between light and heavy industries in order to give more prominence to the development of light industry in accordance with the principle of the readjustment of the national economy. The output value of the country's light industry registered an 18.4 per cent increase in 1980 over that of 1979, as compared with an increase of 1.4 per cent made by heavy industry. The ratio of light industry in the country's industry as a whole rose from 43.1 per cent in 1979 to 46.9 per cent in 1980.

A series of measures were taken by the state and the local governments at all levels in 1979 to readjust the proportions between light and heavy industrial production and to speed up the former. Since the second half of 1979, light industry consistently has grown more rapidly than heavy industry. Early in 1980, measures were taken to implement the state policy of giving priority to textiles and light industries in six fields (raw and semi-finished materials, power supply, transportation, bank loans and capital construction). That year, the state loans to the light, textile and electronics industries amounted to two billion yuan. The local governments of various provinces, autonomous regions and municipalities also made greater allocations of local funds to help develop light industry, giving priority to providing it with raw materials, electricity and transport.

Meanwhile, both the state and the local governments readjusted heavy industrial production and changed over the resulting surplus of technical forces, plant buildings and equipment from heavy industry to the production of light industrial and textile products needed on the market. Some heavy industry enterprises established associations with light industrial enterprises for the purpose of developing light and textile industries.

The metallurgical, machine building, chemical and other heavy industrial departments further adjusted their product mix so as to better serve light and textile industries. The 1980 production of small-scale rolled steel, wire, sheet steel, and strips rose by 27.6 per cent over that of 1979.

While stressing the development of light and textile industries, efforts were made to readjust the infrastructure of these industries, raise the quality of their products and increase the variety and specifications to better meet the market demand. Shanghai, which leads other regions of the country in the light and textile industrial production, turned out 7.08 billion yuan worth of light and textile industrial products in 1980, an increase of 7.1 per cent over the previous year. The increase in the output value of 100 products in high demand averaged 50 per cent over that of 1979. The city developed more than 10,000 new varieties and specifications of textile products. The supply of light and textile industrial products on the domestic market has thus been improving.

II. PRELIMINARY REFORMS OF THE COMMERCIAL SYSTEM

China's current commercial system was established and developed after the founding of the People's Republic in 1949. For more than 30 years, it has played a significant role in developing and expanding state-run commerce, transforming capitalist commerce, stabilizing prices, promoting production

and meeting the basic daily needs of the people. Many of its essential aspects and concrete methods are consistent with socialist principles. However, our commercial system also is fraught with serious defects. These are attributable to several factors: the long-term "Left" mistakes in our economic work which neglected the role of commodity circulation; the transplanting of some erroneous foreign methods in the early days of the People's Republic; the long-standing practice of a state monopoly on purchasing and marketing since the period of socialist transformation; and the fact that China's economy was principally a small-peasant based, undeveloped commodity economy with little experience in organizing commodity circulation. The defects are mainly manifested in too much control over commodities to the detriment of production and sales; monopoly operations with few channels of circulation, which are seriously imbued with a bureaucratic way of handling commerce; the establishment of wholesale enterprises and other management organizations according to administrative regions, which caused the separation of town from countryside and of the departments and areas from one another; the institution of a centralized chain of command in administration and enterprises whereby the enterprises are run by external administrators and lack on-site decision-making power and economic motivation at market pressures. These factors are detrimental to the enthusiasm of the enterprises and their staffs.

Some adjustments and reforms have been made with regard to the commercial system since the third plenary session of the 11th Central Committee of the Party. They mainly include: adding a group of collective and individual commercial units, restoring and expanding rural village fairs and farm produce markets in towns, thus laying a preliminary foundation for the step-by-step establishment of a commercial system containing multiple economic sectors with the state-run commerce as the leading factor; abolishing the system of marketing industrial goods by the commercial departments,

improving the forms of purchasing and marketing manufactured goods, clearing channels of purchase for grass-roots wholesale and retail shops, resuming trading warehouses and trust business — important steps for reducing links in circulation, opening multiple channels of circulation and developing multiple forms of operation; introducing the system by which enterprises retain a portion of profits on an experimental basis; selecting grass-roots units where decision-making power will be extended on a trial basis and where the practice of turning over the profits to the state will be replaced by paying income taxes, etc. All this provides useful experience for an all-round reform in the future. Following is a brief account of the work in this field.

**1. GRADUALLY ESTABLISHING A COMMERCIAL SYSTEM
IN WHICH STATE-RUN COMMERCE LEADS AND
MULTIPLE SECTORS OF THE ECONOMY
EXIST SIDE BY SIDE**

(1) The recovery and development of collectively-owned and individual commercial units.

Following the basic completion of the socialist transformation of private capitalist industry and commerce, a new commercial system took shape in 1956 and 1957 in which state-run commerce was the leading factor and multiple sectors of the economy existed side by side. At that time, there were 2.703 million shops and stores (including retail, catering and service trades) in the country, employing 7.614 million people. Of this workforce, 4.027 million or 52.9 per cent worked in the state-owned units, 2.844 million or 37.3 per cent in collectively-owned shops and groups, and 743,000 or 9.8 per cent operated individual businesses. The total value of retail sales in 1957 was 47.42 billion yuan, of which 29.45 billion or 62.1 per cent came from the state-owned units and the supply and marketing cooperatives, 15.12 billion or 31.9 per cent from the joint state-private units and cooperative shops and groups, and 2.85

billion or 6 per cent from the individual businesses. It was generally agreed that this kind of commercial system suited China's conditions in that it was characterized by an extensive network of shops and centres and flexible operations and had advantages in promoting production, ensuring market supply, bringing conveniences to the people, improving the management of commercial enterprises and providing job opportunities. But after 1958, this system, rational and consistent with socialist principles, was weakened and damaged time and again. Joint state-private commercial units were converted to state-owned ones, cooperative shops and groups were merged or removed, and individual businesses were almost reduced to nothing. As a result, the number of shops were cut by 80 per cent compared with 1957, giving rise to commerce solely operated by the state-owned units, and leading to inconveniences to the masses, poor services, bureaucratic way of managing commerce, and other bad consequences.

With the gradual readjustments and implementation of the relevant policies after the third plenum, collective and individual commercial units have been restored and have developed rapidly. In the first half of 1979, the government made it clear that collectively-owned commerce is socialist in nature and the individual commerce is a necessary adjunct of the socialist commerce. It also laid down a number of policies to encourage collective and individual commerce with respect to the channels of obtaining supplies, the distribution of supply sources and payment and welfare. Supported by urban neighbourhoods, industrial and mining enterprises and assisted by state-run commerce, various types of stores, restaurants, wine shops, tea houses, hotels, barbers, photographers, tailors and repair shops mushroomed. The value of retail sales by the collective commercial enterprises reached 15.53 billion yuan in 1979, a rise of 38.2 per cent over the 11.24 billion a year before. The value of retail sales by individual businesses in 1979 was 0.43 billion yuan, a 104.8 per cent increase over the 1978 figure of 0.21 billion. By the end of 1979, the col-

lectively-owned shops including those of catering and service trades in the whole country numbered 676,000, an increase of 8.5 per cent over the 623,000 in 1978. The number of people engaged in collective commerce rose to 2.881 million, 44.3 per cent more than the 1978 staff of 1.996 million. The year 1980 witnessed a further expansion of collective and individual commerce. The collective shops including those of catering and service trades numbered 762,000 at the end of 1980, an increase of 87,000 or 12.9 per cent from the end of 1979; their staffs totalled 3.334 million, a rise of 453,000 or 15.7 per cent above the 1979 number.

The restoration and expansion of individual commercial businesses is most conspicuous in the repair and catering trades. For a long time, Beijing's shoe repair services were all but nonexistent. But, in 1979 the government began to permit individual repair services, and since then, shoe repairmen have been touring streets and alleys relieving a needy populace. The catering trade in Wuhan City, Hubei Province, made sufficient improvements in 1980 because about 1,000 individuals were licensed to operate, in addition to the expansion of collectively-owned restaurants. The city now has 2,000 restaurants and eating houses, including 300 state-owned and 700 collective ones, nearly three times the 1975 number of 700. Now there is 0.8 shop for every 1,000 residents. This number is still lower than the 1957 figure of 3.6 and the 1965 figure of 1.2, but it is a big improvement on what it was during the "cultural revolution". The co-existence of multiple types of ownership releases the initiative in various quarters for running commerce. The expanding network of shops activates the market and initiates competition, which in turn promotes an increase in the variety of goods, the resumption of traditional features and styles and the addition of service items. The variety of snack foods available in Wuhan in 1978 numbered 76 and grew to 221 in 1980. The jellied beancurd, a "lost" food for some time, is now available again. Quite a few restaurants have resumed traditional services such as

providing feasts to order, arranging meals for regular customers and warming dishes for clients, etc. Some even go out to sell their food in factories, hospitals and schools. This not only meets the different needs of the customers, but also expands their business, which is beneficial to the state, the enterprises and the individuals as well.

(2) The recovery and expansion of village fairs and urban farm product markets.

Village fairs in China have a history of several thousand years. With the recovery and development of production shortly after the founding of the People's Republic, the village fairs, which were fairly brisk then, played an important role in enlivening the rural economy, regulating surplus and shortage, supplying the needs of the people and promoting sideline production in the rural areas. Later, they were subjected to criticism and prohibited. Especially during the "cultural revolution", going to the fair was almost synonymous with "taking the capitalist road". Village fairs were shut down or forced to go underground in many places. Commune members were unable to sell their farm produce, subsidiary or local products whereas the buyers were unable to get them. This was a blow to agricultural production and sideline occupations, unduly restricting and impeding the development of the rural economy.

After the downfall of the "gang of four", village fairs were gradually restored. Two documents on agriculture by the Central Committee of the Chinese Communist Party clearly set forth regulations about village fairs. The "Decisions of the Central Committee of the Communist Party of China on Some Questions Concerning the Acceleration of Agricultural Development" points out: "The plots of land for private use and animals of the commune members, domestic sideline occupations and village fairs are an appendage to and adjunct of the socialist economy, and must not be criticized as the so-called tails of capitalism. On the contrary, while ensuring the consolidation and development of the collective economy, the

peasants should be encouraged and helped to undertake domestic sideline occupations to increase their personal income and liven up the rural economy." The "Regulations on the Work of the Rural People's Communes" says: "Village fairs are a necessary complement to socialist commerce. Commune members have the right to buy and sell at the fairs, supplying what each other wants, and no unit or individual is allowed to interfere. After fulfilling the state purchase quotas, commune members are permitted to engage in the buying and selling of a small amount of grains and oil-bearing crops at the fairs. Grain departments can also buy and sell at negotiated prices. Animal markets shall be opened in a guided way. It is necessary to strengthen management of the village fairs and deal resolute blows to the speculators." Thus, 1979 and 1980 saw a further expansion of village fairs with the recovery and development of agriculture and rural sideline production. By the end of 1979, village fairs in China numbered 36,767, a rise of 25.8 per cent over the 29,227 in 1976. Their volume of transactions in the year reached 17.1 billion yuan, 67.6 per cent more than the 10.2 billion in 1976. Converted to the prices listed by the state, the figure was equivalent to 6 per cent of the total volume of retail sales in 1979 — 180 billion yuan. The number of village fairs in 1979 was close to the 37,000 in 1965, the year before the "cultural revolution" was started, and their proportion in the total volume of retail sales was also close to the 9.3 per cent in 1965. Village fairs made further advance in 1980, reaching 37,890 in number and their proportion in the total volume of retail sales grew to 7 per cent. Prices at the fairs were stable with a slight decline. The prices of a considerable number of commodities were close to or level with the listed prices of the state-run commerce, those of some goods were even lower. The difference between the listed prices of the state-run commerce and the prices at the village fairs was 69 per cent on the average in 1978, and it was narrowed to an average of 57.5 per cent in 1979, a decrease of 11.5 per cent. Among the major commodities, the prices of

grains and vegetable oils at the fairs were more than double the listed prices, and the prices of the others were less than 50 per cent above the listed prices. A survey of village fairs in 1980 showed that the general price level rose by 2 per cent from that one year before. The prices of seven of the ten major commodities came down, namely, rice, wheat, maize, edible vegetable oil, pork, cabbage and piglet, whereas the prices of three — tobacco, eggs and firewood — rose a little bit. The healthy development of the village fairs and the levelling-off of the prices testify to the stability of China's rural economy.

Prior to the "cultural revolution", some Chinese cities had markets where peasants from the outskirts and the city dwellers freely traded certain farm and sideline products. They were nearly all closed later. In the last two years, in addition to the resumption of these markets, others have been opened on the fringes of the big cities of Beijing, Shanghai, Tianjin with good results. By the end of 1979, a total of 2,226 farm and sideline produce markets were operating in 208 big and medium-sized cities in China, their volume of transactions reaching 1.2 billion yuan. The types of goods on sale increased from 60 in the initial period to more than a hundred. The quantity of pork, fresh eggs, edible vegetable oil and five other major goods sold was equivalent to 9.2 per cent of the amount sold by the state-owned stores in these cities. The prices of these eight commodities at the markets at the end of 1979 were, on the average, 49 per cent higher than the selling prices at the state-owned stores, but the prices of certain goods at the markets in some cities were close to or in individual cases even lower than the listed prices at the state-owned stores. The number of such markets grew to 2,919 in 1980 and their volume of transactions totalled 2.4 billion yuan. In Shenyang City, Liaoning Province, farm produce markets were first opened in January 1979, and they numbered 31 by the summer of 1980. The volume of transactions in 1979 was 25.25 million yuan, which means that on the average, every

city dweller bought more than 9 yuan's worth of goods at these markets. The volume of transactions for the first half of 1980 was 20.08 million yuan, double the figure for the same 1979 period. A total of more than 15 million kilogrammes of grain, oil-bearing crops, meat, eggs, vegetables, fresh and dried fruits were traded, equivalent to 5.2 per cent of the volume of sales of the same commodities handled by the state-owned stores. The types of goods sold on the markets rose to over 100 as against the 40-odd a year before. Sesame seeds, mung beans, pheasant, rabbit and other goods, not seen for many years in big cities, are now available on the farm and sideline produce markets.

2. EXPLORING MULTIPLE CHANNELS OF CIRCULATION AND MULTIPLE FORMS OF OPERATION

Chinese commercial departments and enterprises at various levels have made useful explorations and trials to open multiple channels of circulation and develop multiple forms of operation.

(1) Reform the forms of commodity purchase and sales and reduce the scope of commodities under planned control.

Commodities are greatly varied. Different commodities play different roles in the national economy, and the supply and demand also vary from commodity to commodity. In view of this, in the 1950s the Chinese Government worked out the method of differentiated management of commodities. Commodities were managed under three categories. The first category, controlled by the State Council, included such important commodities as grains, cooking oil and cotton, all of which had a bearing on the national economy and the people's livelihood. The second category, controlled by the ministries, included important commodities such as bicycles, wrist watches, sewing machines and radios. All other commodities came under the third category, controlled by the provinces,

municipalities and autonomous regions. For a long period, most of the first-category commodities were governed by the method of state monopoly for purchase and marketing, and the second-category commodities were governed through planning, and the third-category commodities were not included in state plans and so were regarded as non-planned goods. For more than 20 years, a growing number of commodities were placed under state monopoly for purchase and sale or under planned control, and an ever tighter control was imposed on them.

From 1979 on, while the state monopoly for purchase and marketing continued on such important farm produce as grains, oil-bearing crops and cotton, what remains above the purchase quotas is to be bought by the government at added or negotiated prices, or to be sold by the commune members at village fairs. State-owned stores and shops in the cities can sell commodities that are covered by the state monopoly for purchase and marketing at listed prices and according to rationing regulations. They can also sell at a higher price than the listed one a number of farm and sideline products purchased at negotiated prices such as mung beans, red beans, sesame seeds, peanut kernels and vegetable oil. This has contributed to regulating surplus and shortage in town and country and improving the market supply.

The State Council in 1979 gave approval to the Ministry of Commerce appropriately reforming the form of purchasing and marketing industrial goods and abolishing the system in which all industrial goods are sold by the commercial departments. Accordingly, the Ministry of Commerce changed the form of purchase and marketing of industrial goods into four types:

(a) Commodities under state monopoly, such as cotton cloth, gasoline, diesel oil and kerosene, are purchased and distributed by the state in a unified way. These goods account for 39 per cent of the total volume of purchases of industrial goods;

(b) Commodities purchased according to plan, such as bicycles, wrist watches, sewing machines, radios, altogether more than 50 items, are sold and bought by the industrial and commercial departments according to state quotas. Any surplus can be purchased through consultation between the industrial and commercial departments or can be marketed by the industrial departments. These goods make up approximately 21 per cent of the total purchases;

(c) Commodities made to order. With the purchase plans agreed through consultation between the industrial and commercial departments as reference, the grass-roots industrial and commercial enterprises coordinate their production and marketing plans and sign purchase contracts. Commodities not covered by the contracts can be marketed by the industrial departments themselves;

(d) Commodities purchased by choice. Commercial departments purchase industrial goods on a selective basis, and industrial departments can either market their products themselves or ask the commercial departments to sell them on commission.

As a result, the types of commodities placed under unified plans by the Ministry of Commerce were reduced from 131 to 37, and the areas regulated by the market were considerably widened. This reform maintains a state monopoly for purchase and marketing or planned control over important commodities which have a bearing on the national economy and the people's livelihood, and at the same time expands the commodity-controlling power of the local governments and enterprises at various levels and charges them with more duty. This also improves the relations between industry and commerce. The commercial departments can continue to control all or most of the supply sources to ensure market supply whereas the industrial departments have room to manoeuvre in regulating according to market needs the output and increasing the variety and colours of those commodities to be purchased on order or on selective basis. The past

dislocation between production and sales is gradually remedied.

(2) Gradually increase the forms of operation.

Forms of operation in the realm of commodity circulation in China have increased and developed since the third plenum of the 11th Party Central Committee. State-run commerce and rural supply and marketing cooperatives are still the basic and universal forms of operation. In addition, there are sales shops or departments run by state-owned industrial enterprises, state farms, state forestry farms, state ranches and state-owned fishery enterprises, all under ownership by the whole people. With regard to collectively-owned commerce, there are, apart from the original cooperative shops and groups, also collective commercial enterprises run by state-owned enterprises, by urban neighbourhoods, departments and units, by communes, production brigades and teams. Another new form of operation is shops jointly run by industrial-commercial, agricultural-commercial or commercial-commercial enterprises. According to statistics from Chongqing, Sichuan, at the end of August, 1980, that city had 270 shops and stores run by neighbourhoods, 250 by industrial departments, 1,050 by rural communes, production brigades and teams, 980 by government offices, army units, schools, enterprises and establishments for the purpose of providing jobs for the children of their staffs, 4,300 collective shops and stores including those opened by job-waiting youths, and 3,400 individually owned shops. Representing multiple channels of circulation both in wholesale and retail, these different types of commercial enterprises compete with one another to a certain degree through their own particular forms of operation. In addition to specialized wholesale or retail shops, some stores conduct both wholesale and retail business. The Buttons Shop in Hangzhou, Zhejiang Province, is engaged in wholesale dealings with factories and with retail shops, and also sells buttons to individual consumers; it enjoys a good reputation in the general merchandise trade for its complete range of goods,

brisk business and quick capital turnover. Many shops act as sales agents for factories; this form of operation was certain to appear after the factories began to be allowed to dispose of a portion of their products and the commercial departments could purchase goods on a selective basis.

One of the significant changes in the forms of operation by the commercial enterprises in the past few years is the restoration and growth of trading warehouses. Trading warehouses are intermediate commercial organizations with a long history in China. Incomplete government statistics collected in 1935 of 348 counties in 16 provinces and municipalities show that there were 27,700 trading warehouses, employing 96,000 people. At that time they mostly handled the exchange of farm and sideline produce between town and countryside and between different areas, undertook purchases and sales, storage and shipment for their clients, and provided board and lodging for clients, etc. In the early days of the People's Republic, commercial departments and supply and marketing cooperatives at all levels not only established and expanded in a planned way socialist trading warehouses and trust service departments and peasant service departments, which were similar in nature, but also made use of private trading warehouses to facilitate goods exchange between town and countryside. Trading warehouses were greatly weakened during the "great leap forward" in 1958 but were somewhat restored in the early 1960s. In 1963, warehouses at the county level and above numbered 1,600. But during the "cultural revolution", they were branded as "black dens of capitalism" and nearly all of them were closed. Trading warehouses were gradually reopened in various places in the last two or three years. By the end of 1980, at the county level and above 1,931 trading warehouses had been restored or newly established. They play their own role in dredging the channels of circulation for the farm and subsidiary products of the third category, making up for the insufficient supply of commodities on the market and promoting commune- and brigade-run enterprises.

and diversified economy in the rural areas. Since its inception in March, 1979, the trading warehouse in Luohe City, Henan Province, has established business ties with more than 300 counties; it sold in a few months large quantities of starch and dried sweet potato chips on behalf of the counties in the vicinity of the city, providing raw materials for 37 wineries in Jilin and Hunan provinces. The Tianjin Native Products and Sundry Goods Trading Warehouse has handled the supply of fish bowls, flower pots and shoe brushes, all of which had been out of stock for a long time because the specialized companies would not deal in them. The Gaixian Warehouse in Liaoning Province is active in selling goods and buying raw materials on behalf of over 30 commune- and brigade-run enterprises so that their production has developed considerably. It has really helped the rural areas expand production and increase income.

Another significant change in the forms of operation in the last few years is that the commercial departments have begun to contract the management of a number of small shops, restaurants and other service stores to their staff members. This is a major step towards improving the socialist relations of production in the commercial and service trades. This method can more effectively link the fruits of operation of the enterprises with the personal interests of the staff, thus further releasing the enthusiasm of the workers. Practice shows that units following this method in line with their actual conditions can quickly turn deficit to profit, changing from backward to advanced units. A case in point is the experience of two public bathhouses in Yingkou City, Liaoning Province, contracted to the staffs for operation. Before the contracts were signed, the two bathhouses suffered a loss of 16,594 yuan in 1978, and of course the staffs received no bonuses. In 1980, after the management contracts were signed, they turned over to the state 4,675 yuan in taxes, and retained 4,200 yuan for an operation fund and a welfare fund, and the staff members got a total of 4,259 yuan in bonuses. The management contracts, it can

be said, benefited three parties — the state, the enterprise and the individual.

(3) Initial importance is being given to the role of cities as trade centres.

China's big cities, such as Shanghai, Tianjin, Guangzhou, Shenyang, Wuhan, Chongqing and Xi'an, are centres of commodity production and circulation out of natural historical development. Since the founding of the People's Republic, they have continued to act as centres of commodity concentration, distribution and exchange. Provinces and autonomous regions also have their medium-sized and small trade centres for different economic areas. But the role of these cities as trade centres has been artificially restricted and interrupted by the over-emphasis once placed on working out plans, purchasing, distributing and transferring commodities and establishing commercial administrative agencies and wholesale enterprises according to administrative divisions. In the past few years, the government has called for giving greater importance to the role of the cities as trade centres and removing obstacles created by administrative divisions and administrative means. Accordingly, the Ministry of Commerce plans to set up trade centres for industrial goods in some big cities which act as national or regional economic centres. A trade centre of industrial goods for daily use was established in 1980 on an experimental basis in Xuzhou City, Jiangsu Province. In addition to extensive trading warehouses set up by supply and marketing cooperatives, a trade centre for third-category commodities was opened in Zhengzhou City, Henan Province, to gain experience in this field. The Chongqing City General Merchandise Purchasing and Supply Station is a sales channel for 14 types of goods to the departments stores and 90 supply and marketing cooperatives in eight counties of the nearby Jiangjin Prefecture, thus giving play to the role of the city as a commodity concentration and distributing centre, reducing circulation links and expanding sales. On the basis of trials in some cities, the commercial departments of Beijing, Tianjin, Shang-

hai, Nanjing, Wuhan, Guangzhou, Chongqing, Shenyang, Harbin and Xi'an convened in Wuhan in November, 1980, a meeting of the commercial bureau directors in the ten cities to exchange views on giving play to the big cities' role as trade centres. Suggestions expressed at the meeting included resuming the traditional channels of circulation at an earlier date so as to change the single form of purchase and marketing and circulation channels into multiple forms and channels; tapping commercial potential of the big cities so as to establish more shops and stores; breaking the relations based on affiliation of trades and regions so as to extensively organize associated industrial-commercial, agricultural-commercial and commercial-commercial enterprises to enliven the market. These views and some other measures designed to strengthen the cities' role as trade centres will further promote the work of organizing and expanding commodity circulation in a more rational way.

3. EXPANDING THE DECISION-MAKING POWER OF STATE-OWNED COMMERCIAL ENTERPRISES ON AN EXPERIMENTAL BASIS

There are tens of thousands of state-owned commercial enterprises doing independent business accounting in China, but they have very little power to make their own decisions in matters of operation and management. Their plans are conditioned by the mandatory quotas issued from higher agencies, their funds are approved by the higher agencies, their business directed by the higher agencies, and their workforce decided upon by the higher agencies, too. The enterprises lack the necessary decision-making power in matters related to manpower, money, materials, purchasing and marketing. The over-concentration of power in the hands of the higher agencies and administrative departments bind the enterprises hand and foot, prevent them from conducting independent and fruitful operations and management and dampen the enthusiasm and initiative of the leaders and staff members of the enterprises. This

is an important cause of the poor management level in many Chinese commercial enterprises.

In the past few years many places have experimented with extending the commercial enterprises' decision-making power, which has yielded encouraging results. Such experiments had been conducted at 3,942 units in all parts of China except Tibet by the end of 1980, mostly in retail shops and also in a small number of tertiary wholesale stores, restaurants, service shops, and factories run by commercial departments. Sichuan Province was among the first to extend decision making to enterprises, and a great number of shops and other enterprises were involved there. The experiment began in Sichuan in a few commercial enterprises in 1978, and the number of units involved grew to 40 in 1979 and 206 in 1980. The experiment covers the extension of five powers to the enterprises:

(1) Financial power. Some enterprises have tried profit sharing, retaining a portion of the 1980 profits, determined according to the ratio between the portion of profit they received from the profit in 1979 and the total profit. Others assume sole responsibility for their profits or losses and pay income taxes on their net profits. Either method enables the enterprises to own defined amounts of money that can be used to develop the enterprises, run collective welfare facilities and distribute bonuses. These methods allow a preliminary change from the past, when higher agencies were responsible for the earnings and spendings in a unified way.

(2) Planning and operational power. The experimental enterprises work out plans in accordance with government policies, market trends and their own conditions and submit them to the higher agency for the record; they may find for themselves a part of their supplies sources and may decide to undertake a certain amount of sale or commission business, thus altering the past method of selling whatever was allocated from above.

(3) The power to fix and regulate the prices of some commodities. The experimental enterprises can handle non-

planned commodities and fix the retail prices if they are unavailable locally, or allow the prices to float if they are available locally. The enterprises can sell substandard commodities at reduced prices.

(4) Personnel power. In line with government policies and related regulations, the experimental enterprises can formulate their own system of evaluating and rewarding staff members. The workers and staff can elect or remove by democratic means middle-level cadres in the enterprises. In some enterprises, the managers are elected on an experimental basis.

(5) The democratic rights of the workers and staff. The system of workers' congress has been instituted and improved in the experimental enterprises. The congress has the right to decide on important enterprise matters and to supervise their implementation. Some enterprises try out the system by which the manager assumes chief responsibility under the leadership of the workers' congress.

Experiments show that when they are given the above-mentioned powers, commercial enterprises are more independent than they were previously in conducting purchases and sales so that the commodities are more marketable, their variety increases, intermediate circulation links are reduced, and the business is lively. The extension of power in financial matters helps replace the idea of "eating from the same big pot", strengthens business accounting, improves management and operation in the enterprises, and at the same time combines the interests of the state, the enterprises and the workers, thus releasing the enthusiasm of all. The strengthening of democratic management in the enterprises heightens the sense of responsibility of the workers as masters of the enterprise and encourages them to learn professional skills, thus creating conditions for a successful commerce.

Profit-sharing in the commercial departments and enterprises is an important part of extending the financial power of enterprises. By an agreement between the Ministry of Com-

merce and the Ministry of Finance, which was approved by the higher authorities, since 1979 the method of profit sharing has been applied to all commercial enterprises and to industrial enterprises run by commercial units instead of the old method of holding the higher agency responsible for the profits or losses in a unified way. With the new method, the commercial departments retain 19.3 per cent of the profits as simple capital construction and managerial fund. The Ministry of Commerce determines the percentage of the profits retained by the commercial enterprises in the various provinces, municipalities and autonomous regions according to their actual profits, past record, operational conditions and management level. This profit sharing method was introduced in the catering trade and the nationality products enterprises before 1979. In 1979, the catering trade was allowed to keep 80 per cent of their profits while handing over the remaining 20 per cent to the state coffers. In 1980, the nationality products enterprises were allowed to keep 50 per cent of their profits while turning over the remaining half to the financial departments. Thus, the commercial departments can draw an impressive sum of funds from the profits they make every year.

The practices over the past two years indicate that the method is feasible and that it has played a good role in firing the enthusiasm of the commercial departments, enterprises and workers, improving management, ensuring income, expanding commercial establishments and promoting the workers' welfare. In 1979, the commercial units yielded 13.5 per cent more profits than the previous year, a record high since 1949. Using the above-mentioned profit sharing method, the sum of profits retained in the commercial units in 1979 was 24 per cent more than the state appropriations for them in 1978, leaving a certain reserve fund to the various levels of commercial departments and enterprises. Incomplete government statistics show that the commercial enterprises and the industrial enterprises run by commercial units in 1979 used their retained portion of profits to build simple storehouses totalling 1.79 million square

metres and simple structures and buildings totalling 714,000 square metres, to buy 3,126 lorries and cars and 124 ships and boats, and construct 168,000 cubic metres of small oil tanks. In addition, they spent 13 million yuan as technical fees and 116 million yuan as production and subsidy funds and on building housing for the workers. The commercial departments in Zhejiang Province in 1979 used their retained portion of profits to erect 330,000 square metres of simple storehouses, 480,000 square metres of shop and production premises and 190,000 square metres of workers' housing. The catering trade in 1979 added 25.58 million yuan out of their retained profits to the circulating capital and spent 189 million on purchasing fixed assets, introducing technical innovations and opening more restaurants and stalls. In 1980, the commercial departments and enterprises made use of their portion of profits totalling two billion yuan to build storehouses, shops and housing. But because this method is still in the experimental stages and because of the scattered distribution of commercial enterprises, the retained portion of profits is not put to good use promptly and the balance at the year end is too big. Therefore, it is necessary to strengthen management and improve the utilization rate of it.

An important meeting convened by the Central Committee of the Party and the State Council in the fourth quarter of 1980 stressed further readjustment of the national economy as the focal point, subordinating the restructuring of the economic system to the readjustment so as to promote the latter. Thus, the pace of reforming the commercial system will be slowed down a bit, and the reform will be made to facilitate economic readjustment, enliven the economy, promote production and expand circulation. But this does not mean that the reform of the commercial system will mark time, still less to back-pedal. The reason is a host of facts already prove that the trials in the last two years are correct in direction, and steady in progress and have produced remarkable results. The trouble is, owing to the long-time influence of the "Left" ideology,

especially the interference and sabotage in the ten-year turmoil, the imbalances in our national economy have yet to be rectified, the gap between commodity supply and purchasing power is still quite big, and the prices still fluctuate to a certain degree. Under these circumstances, it is hard to anticipate the results of reforms. Therefore, we should first concentrate our energies on the readjustment. We'll go ahead with the reform when we achieve a balance between fiscal revenues and expenditures and between commodity supply and demand and price stability. Reform will then yield much faster and better results. Of course, some of the reforms beneficial to economic readjustment should continue and new trials should be conducted.

III. MEANS OF PRODUCTION ENTER THE MARKET AS COMMODITIES

In the early years of the People's Republic, a separate system was established for the distribution of means of production on the theory that "means of production are not commodities." Only the agricultural means of production were supplied to the rural areas by the commercial departments as commodities, but major raw materials and industrial means of production were separated from the means of livelihood, which were handled by the commercial departments as commodities. Since then, most of the means of production have been divided into three categories: materials in the first category such as iron, steel, timber, cement and motor vehicles are under the unified control of the State Planning Commission; goods in the second category such as molybdenum and titanium are controlled by related ministries under the State Council. The goods in these two categories are called "state-controlled" goods. Only the goods in the third category, that is, all goods not covered by the first two categories, are allowed to be ex-

changed freely. The state-controlled goods are distributed and supplied at national order-placing meetings under the plans of the State Planning Commission and the various industrial ministries. When means of production were in short supply, there were serious problems of decentralized supplies, ineffective control of goods by the state, dislocation between production and demand, and abnormal circulation of goods. In the early 1960s, the State Bureau of Supplies (which was later changed to the Ministry of Supplies) and special corporations under it were set up to streamline the distribution and control of the "state-controlled" goods, and supplying networks were set up in conformity with the economic regions. During the "cultural revolution", the whole system was disrupted, and every factory and every unit in every trade began to stock goods by themselves. As a result, the distribution of goods was decentralized, large quantities of goods were kept idle or wasted, and turnover slowed considerably. After the downfall of the "gang of four", after initial readjustment, the situation improved somewhat, but not fundamentally. In the big cities like Shenyang and Wuhan, there were several dozen supplying offices of the ministries, provinces, cities or even prefectures and counties handling the same kind of material, causing serious overstocking. In the country as a whole, the average time that rolled steel was warehoused after leaving the rolling mills was eight months and that of machinery 18 months. The main causes for this were: on the one hand, economic work had long been affected by the "Left" ideology, capital construction work was overextended, the development of heavy industry was overly emphasized and the supply of means of production often fell a long way short of demand; and on the other hand, the materials were handled entirely by administrative means through complicated procedures, on the theory that "means of production are not commodities", making it very difficult to meet the requirements of constantly growing production and of increasingly elaborate division of labour and specialization.

The situation has changed considerably since the third plenary session of the 11th Central Committee of the Communist Party of China was held in December 1978.

1. EXPLODING THE THEORY THAT "MEANS OF PRODUCTION ARE NOT COMMODITIES"

The theory that "means of production are not commodities" was upheld for a long time mainly because the circulation of means of production among the enterprises owned by the whole people was a mere exchange of products within the limits of the same ownership which involved no change of ownership of the products. As a result of discussions on the questions of commodity production and the law of value under the socialist system in recent years, most comrades agree that the means of production exchanged among the enterprises owned by the whole people in the period of socialism are commodities. This is because socialism in China is still in its initial stage, and the state-owned economy is not yet completely owned by the whole people, nor are the means of production in all economic realms owned by the whole people. Although all state-owned enterprises are owned by the whole people, their production conditions and levels of management vary, and the fruits of labour and economic returns also differ from enterprise to enterprise. Therefore, because each enterprise has its own economic interest, each should enjoy relative independence, and have certain powers to make decisions about production, exchange and distribution of products. Each should carry out its economic activities as a relatively independent enterprise and do independent economic accounting. It must not possess the products of labour of others without paying for them and the means of production must be exchanged at equal values among enterprises. The means of production so exchanged become commodities, and every state-owned enterprise is a relatively independent commodity pro-

ducer and exchanger. Recognition of the fact that the means of production exchanged among the state-owned enterprises are commodities by no means negates the distribution and transfer of some major capital goods according to plan. Practical experiences over the past 30 years or so show that not recognizing that the means of production exchanged among the state-owned enterprises are commodities had given rise to many problems in economic work. It was under the guidance of this theory that a series of measures to exercise state control over the means of production were introduced. This was one reason that production in our country had grown slowly and economic results had been unsatisfactory. Economic results markedly improved in recent years, when part of the means of production were treated as commodities and when business operations were carried out in the form of commerce, thus rejecting the theory that "means of production are not commodities".

2. INITIAL EXPERIENCES IN CIRCULATING MEANS OF PRODUCTION ON THE PRINCIPLE THAT THEY ARE COMMODITIES

Since 1979 supply departments at all levels have adopted many forms and methods of business operations to circulate means of production on the principle that they are commodities. As a result, the circulation of means of production has improved.

Firstly, flexible practices have been adopted in the supply of the means of production which are still controlled by plan. For example, as a result of the economic readjustment and the reduced scope of capital construction, most of the machine products and some of the chemical products, steel products and non-ferrous metals can now be supplied without limits. The number of items controlled by the Shanghai municipal supplies department dropped to 193, down 75 per cent from 791 in 1979,

and further to 30 in 1980. Of 156 chemicals, only 12 are still supplied by plan, and all the rest are supplied without rations or according to need. Even in the distribution of the items under control, not all customers are asked to apply for the supply. The number of applicants has been gradually reduced, depending on the different conditions of the customers. According to an investigation in Shanghai, more than 11,000 enterprises consume steel. About half of them use only 100 tons or less each a year. These users' combined consumption is only about 20 per cent of the city's total. Only 263 enterprises each consume 500 tons or more annually. Combined, they are only 2.4 per cent of the total number of steel consumers, but their consumption accounts for 70 per cent of the city's total. While continuing to ask the major consumers to apply for their portions of the supply, the city's supplies department no longer requires an application from the large number of small consumers. This has not only ensured the supply for the major consumers and maintained planned distribution, but also has simplified the procedures for small consumers.

Owing to the limits of resources, it is still impossible to lift the restrictions on the supply of some means of production. In such cases, the means of production are supplied after verification of the actual needs of the consumers. This practice is applied in many parts of the country to the supply of vehicle tyres, metals for the maintenance of equipment and sundry materials needed by scientific research units. After the practice of supply without ration was adopted in August 1979, the 58 factories under the Knitwear Corporation of the Shanghai Municipal Textile Bureau could buy some steel products which had never before been allocated to them. When in 1979 Hunan Province began to supply steel to the 24 machinery plants in Changsha, Zhuzhou and Hengyang according to the verified quantities covered by their production plans, the actual consumption of steel in these plants was 17 per cent less than the distribution quota.

The application system was replaced by coupons in the supply of certain goods. As a result, consumers can go to supply stations and choose whatever they want, using coupons to indicate their claim on the goods, without any restrictions on time, location or varieties. Coupons have been used in the supply of non-ferrous metals to a large extent and some large and medium cities have also introduced coupons for pig iron for foundries. Shanghai introduced the practice in 1979 and coupons were issued for 6,900 tons, but the actual amount of pig iron purchased was only 5,200 tons, 25 per cent less than the quota.

Secondly, organize the market well to facilitate the flow of goods. As the enterprises get more power in making management decisions and local sources of goods expand, the quantities of goods increase that the enterprises are allowed to sell on their own and goods for exchange as part of the cooperation among different areas. The supplies departments in various parts of the country, in addition to continuing to organize the flow of goods through cooperation, also have adopted a variety of business methods. The two most effective are:

(1) Promote the commission sales of goods retained by enterprises for their own sale. Many supplies departments have taken measures to sell on commission the goods which the enterprises are allowed to retain for their own sale. The Metals Corporation under the Liaoning Provincial Bureau of Supplies has sent liaison officials to the major steel plants to study the varieties, quantities and prices of such goods and has aided their efforts to find the most effective ways to sell their products. In 1980, the Penxi Steel Plant and the Fushun Steel Plant entrusted the sales department of the Corporation with selling 93,000 tons of steel products.

(2) Market the means of production well. Since 1978, more than 60 large and medium cities have opened markets for means of production. Some of the provinces and municipal-

ities are preparing to establish large permanent places for exchange of means of production. Shanghai opened a means of production centre in 1979 for the sale, exhibition and redistribution of goods, mostly overstocked goods, but later it expanded its business scope to processing, accepting orders and selling local products and goods retained by factories above the planned quotas. Its daily transactions increased from less than 100,000 yuan to about 400,000 yuan. Shanghai also opened a chemical commodities centre in early 1980, and a metals centre in June, 1980. The centres make up for the deficiency in the state plan by supplying large quantities of goods to the units that need them and by opening outlets for the producers, thus promoting production according to need. They also provide channels for selling what is produced and purchasing what is wanted by the collectively-owned enterprises, and invigorate the flow of goods among the different parts of the country.

The means of production service corporations under the supplies departments around the country have actively organized the means of product on markets. By purchasing, selling, processing and transporting and other means of trust and by holding sales exhibitions, redistributing goods and opening means of production centres, these corporations have promoted the circulation of goods. Incomplete statistics show that in 1979 there were 632 means of production service corporations established at the provincial, prefectural and county levels, and their combined volume of business totalled 3.5 billion yuan, 35 per cent more than in 1978. The service corporations helped various units dispose of old stocks at a value of 1 billion yuan in 1979. The Tianjin Municipal Means of Production Corporation helped various enterprises buy more than 13,000 urgently-needed items at a value of 21 million yuan the same year. The volume of commission business handled by the corporation amounted to the work done by 35,000 purchasing agents, thus greatly reducing the

necessary number of purchasing agents and sales promoters travelling between the city and other parts of the country.

Moreover, various factories have also started to sell part of their goods on their own with the approval of the authorities. Most outstanding in this respect is the sale of machine products. In February 1979, the Sichuan Provincial Bureau of Machine-Building asked all of the machinery plants in the province to study the needs of their customers and to seek new orders. The Ningjiang Machine Tools Plant, with an annual capacity of 500 machine tools for making precision meters, received an assignment of 314 tools for the year. Only half of its products were to be distributed through the state departments of supplies and the remainder had no customers. On June 25, 1979, the plant placed an advertisement in the "People's Daily" for direct orders from customers both at home and abroad. It also sent more than 400 letters to businesses requesting orders. As a result, in one month it received orders for more than 700 machine tools and actually produced 641 tools by the end of the year. Even all its old stock was sold out to fill the orders. This example shows that merely relying on administrative means is likely to cause incongruity between production and marketing of means of production, that regulation through planning must be supplemented by regulation through the market and that standard business practices should be used as much as possible to facilitate the distribution and exchange of means of production.

The above-described improvements are only the initial experiences in organizing the circulation of means of production on the principle that they are commodities. They allow regulation through the market and a certain degree of competition in the sphere of circulation, under the guidance of planning, thus showing vigour and vitality. Such improvements, of course, are still preliminary and there is still a long way to go before the circulation of means of production is truly organized as business operations on the principles of the circulation of commodities.

IV. STABILIZATION AND READJUSTMENT OF PRICES

The Chinese government has consistently adhered to the policy of stabilized prices. In 1950, China won a brilliant victory in stabilizing market prices by taking resolute measures to check skyrocketing prices and the chaotic state of the market left over from old China. China has kept market prices basically stable since 1950. Take the retail sale price index as an example. If the list price in the state-owned commerce was 100 in 1950, it was 121.4 in 1957, 139.0 in 1962, 132.3 in 1965, 128.5 in 1976 and 130.9 in 1979. In the classification of commodities, if the list price of the retail sales in the state-owned shops was 100 in 1950, foodstuffs were 158.4, clothing 112.3, household necessities 127.1, stationery 92.1, medicine 65.4, fuels 154.4 and agricultural means of production 100.5 in 1979. The 30 years saw big increases in the prices of the foodstuffs and fuels, but the prices of medicine and stationery dropped and the prices of clothing and agricultural means of production were basically stable. Some of the prices in China are irrational. The prices of farm products and some primary industrial products like coal, iron and rolled steel were on the low side, and the prices of some commodities have long departed from their values. This has seriously affected the production and circulation of these commodities.

China's prices underwent major readjustments and the price control system was reformed in a number of ways after the third plenary session of the 11th Central Committee of the Communist Party of China. The major measures for readjustment and reforms were: raising the purchasing prices of major farm products, raising sales prices of some non-staple foods, readjusting the producer prices of coal and some other fuels and raw materials, restoring the policy of purchasing and selling farm produce and sideline products in the third category at negotiated prices, fixing prices for some industrial products in the third category through consultation between

industrial and commercial enterprises, and introducing floating prices for some heavy industrial products. These measures have produced positive effects on readjustment and restructuring of the national economy and the development of production. However, under the influence of "Left" mistakes, the scope of capital construction had far exceeded the capabilities of the nation and the total sum of accumulation and consumption exceeded the national income for many years. As a result, China experienced financial deficits for several years in succession, and faces the potential danger of new rises in the market prices. Therefore, the most prominent and pressing demands in readjusting the national economy are to eliminate financial deficits, balance state revenues and expenditures, and stabilize prices. Following is a brief account of what has been done in the past few years to raise the purchasing prices of major farm products, raise the retail sales prices of some non-staple foods and keep the market prices over all basically stable:

1. THE RAISING OF PURCHASING PRICES OF 18 MAJOR AGRICULTURAL AND SIDELINE PRODUCTS IN 1979

In semi-feudal and semi-colonial old China, the prices of the farm products were low and the price scissors between the industrial and agricultural products were very large, thus seriously affecting the development of agricultural production. Since the founding of the People's Republic, the price scissors between the industrial and agricultural products have been reduced by repeatedly raising the purchasing prices for farm products, lowering the prices of the agricultural means of production and basically stabilizing retail prices of industrial goods for household use. If the average purchasing prices of agricultural and sideline products in China were 100 between 1930 and 1936, they were 201.8 in 1950 and 390.7 in 1978. If the average purchasing prices were 100 in 1950, they were 207.3

in 1978. If the average retail prices of rural industrial goods were 100 between 1930 and 1936, they were 265.9 in 1950 and 278.1 in 1978. If the retail prices were 100 in 1950, they were 109.8 in 1978. If the 1930-1936 and 1950 are taken respectively as the base periods, the overall parity indices of the industrial and agricultural commodities in 1978 were 71.2 and 53.0 respectively. The price scissors between the industrial and agricultural products were reduced by 28.8 per cent and 47 per cent respectively in 1978. That is to say, the peasants would require 28.8 per cent less farm produce than in 1930-1936 or 47 per cent less farm produce than in 1950 in exchange for the same amount of industrial goods. The peasants have benefited greatly from these prices. However, owing to the undue emphasis on the development of heavy industry and insufficient support and aid to agriculture, the purchasing prices of some agricultural products which should have been readjusted had not been readjusted soon enough. For example, the purchasing price of the grains remained unchanged for 12 years. During that period, the amount of chemical fertilizers, insecticides and farm machinery used increased year by year, and the cost of agricultural production rose constantly so that some communes and brigades received no more income for their increased production. Moreover, the prices of some industrial goods rose outright or in disguised forms, and there was little improvement in the standard of living of the peasants for many years. This greatly dampened the enthusiasm of the peasants and hampered the development of agricultural production.

Many correct policies were specified in the "Decision of the Central Committee of the Communist Party of China Concerning Some Questions in the Acceleration of Agricultural Development". One of these policies is to raise the purchasing prices of grains, cotton, edible oils, pigs, eggs and aquatic products and to further readjust the price parity between industrial and agricultural products. The State Council decided

to raise the purchasing prices of 18 agricultural and sideline products, beginning in March 1979. The purchasing price of grains was raised by 20 per cent, beginning after the harvest of the summer crops in 1979 and the price for the purchase above the state quota was raised by another 50 per cent. The purchasing price of live pigs was raised by 26 per cent, eggs by 30 per cent, cotton by 15 per cent (an additional 5 per cent for the cotton-growing areas in northern China) and another 30 per cent for the purchase above the state quota, sugar cane by 26.26 per cent, sugar beet by 27 per cent, timber in the ten provinces in southern China 30.6 per cent, mulberry silkworm cocoons by 19.3 per cent, cattlehides by 44 per cent and aquatic products by 26 per cent (freshwater products by 30 per cent and seawater products by 20 per cent). On an average, the purchasing prices of the 18 major agricultural and sideline products rose by 24.8 per cent. The higher purchasing prices of agricultural and sideline products gave the Chinese peasants a total increased income of 10.8 billion yuan that year, an average of 13 yuan per head. The economic readjustment and the implementation of new rural policies, as well as the increased purchasing prices for agricultural and sideline products encouraged the peasants to expand agricultural production and sell their surplus farm produce. The agricultural output value in 1979 was 8.6 per cent greater than in 1978 and grain output rose by 27.35 million tons (another factor for the increase was good weather conditions). The total volume of agricultural and sideline products purchased in 1979 was 27.9 per cent more than in 1978 (or 4.8 per cent more after deduction of the price rises). In this way, not only did the peasants increase their income from the higher purchasing prices, but also the price ratios between the industrial and agricultural products were narrowed again by 18 per cent on the basis of the reduction in 1978. With more agricultural and sideline products purchased, more raw materials were provided to light industry and the market had a greater source of

commodities. The ample supply of pork, eggs and other non-staple foods in 1979 was sound proof of the point.

2. THE READJUSTMENT OF RETAIL SALES PRICES FOR EIGHT NON-STAPLE FOODS

The purchasing prices of the major agricultural products were raised, but their retail prices were not raised correspondingly. This forced commercial departments to buy these goods at high prices and sell them at low prices. The more business they did, the greater losses they suffered. Chinese commercial departments suffered a loss of more than 2,000 million yuan from the sales of pork, beef, mutton and eggs between March and September 1979. This discouraged them from handling these commodities. Moreover, profiteering activities were encouraged by the higher purchasing prices and lower retail prices of unrationed foodstuffs. Some people sold their eggs and pork to commercial departments and then bought them back from the same departments. Some even made profits by reselling the pork and eggs they had bought from the commercial departments. Such activities produced disruptive effects on the national economy. In order to provide the commercial departments with conditions conducive to proper business conduct, to end profiteering activities and to maintain a normal social and economic life, it was essential to raise the retail prices of some non-staple foods in a reasonable way. How much higher the prices would be depended on the correct handling of the relations among the producers, the commercial departments and the consumers. While the interests of the producers needed to be taken into account, the commercial departments in most of the county towns and rural areas also needed to be assured that under normal conditions, they would make a small profit from purchasing and selling non-staple foods in their own localities. In accordance with these principles, the State Council decided:

(1) Taking 1978 as the base period, the retail price of pork was raised nationally an average of 33 per cent, eggs by 32 per cent and aquatic products by 33 per cent. The percentages of rises in the retail prices for these commodities were specified for the different localities after the State General Administration of Prices consulted with the provinces, municipalities and autonomous regions in accordance with price control regulations.

(2) Because the rises in the purchasing prices of cattle and sheep in 1979 were bigger than the rise in the purchasing price of pigs, the rises in the retail prices of beef and mutton were also higher than that of pork. Taking the interests of the minority people into consideration, the extra amount of money paid for the rises in beef and mutton prices should equal that for pork in the same locality.

(3) The retail prices of vegetables was strictly controlled and measures were called for to ensure that they would be raised little or not at all.

(4) The selling prices of poultry and milk were readjusted in accordance with the local conditions and strict controls were mandated.

The readjustment of the selling prices for the above-mentioned non-staple foods began on November 1, 1979. The State Council also stated that after the retail prices of the eight non-staple foods were raised, the retail prices of related products and the charges for repairs had to be strictly controlled. Principles were delineated that called on the nation to eliminate superfluous links, reduce the larger price differences and limit the bigger profits. In accordance with the directive of the State Council, local governments in all parts of China made extensive investigations and calculations and implemented the State Council decisions concerning the raising of the retail prices of the eight non-staple foods. The rises in the retail prices of pork, fresh eggs and aquatic products in various parts of the country conformed with the average percentages specified by the State Council. The average price increase for

pork was 32.9 per cent and eggs 32.9 per cent. The retail prices of vegetables in most areas were not raised and the retail prices of poultry and milk were raised properly. The average price of beef in China was raised from 1.12 yuan to 1.64 yuan a kilogram or by 46.4 per cent; and mutton from 1.26 yuan to 1.80 yuan a kilogram or 42.9 per cent. The retail prices of products made from meat, eggs, fish, poultry and milk and the charges for repairs and services remained unchanged or were raised somewhat, depending on the conditions in different localities. Moreover, the retail prices of some traditional Chinese medicines were raised. Some cities raised the retail prices of electron tube radio sets, scissors, summer sleeping mats and diary books, but reduced the retail prices of monosodium glutamate, plastic shoes and transistor radio sets. Comparing December 1979 with December 1978, the general retail price index (including the list prices of state commerce, negotiated prices and free prices on open markets) rose by 5.8 per cent and the list price index of state commerce (including negotiated prices) rose by 5.9 per cent. The free price index of the open markets dropped by 1.5 per cent.

Raising the retail prices of the eight non-staple foods had a relatively great impact on the standard of living of urban workers. Therefore, the State Council decided to give a monthly subsidy of five yuan to every urban worker (including apprentices and retirees) beginning November 1979. Urban workers in counties that engaged only in stockbreeding received an increase of eight yuan each because they ate more meat. Temporary workers covered by the state plan also received an appropriate subsidy. Collective enterprises also gave the same subsidies to their workers. The five-yuan subsidy was carefully worked out after investigation and calculations, mainly based on the average price increases for the eight non-staple foods, the average cost of the rations of these foods and the average number of family dependents each worker supports. It was calculated so that most workers' families would be able to cover the increased family expenditures resulting from the price

increases, families with fewer dependents would have a small surplus and only families with more dependents or with a higher level of consumption would experience losses caused by the price increases. In the country as a whole, the government had to pay more than 6,000 million yuan for this subsidy, about 1,000 million yuan more than the amount the state received from the non-staple food price increases. As a result of the price increases, urban workers paid 720 million yuan more for the eight non-staple foods in November and December 1979 while the foodstuff subsidies given to workers in the same months totalled 870 million yuan, 150 million yuan more than their extra expenditures resulting from the price increases. In order to ensure a stable life for workers, the State Council also decided to raise the wages of 40 per cent of the workers beginning November 1979 and to readjust the wage scales for some regions. With these measures adopted, the actual living standards of most workers and urban families were not lowered after the price increases and some workers even improved their living standards.

3. EFFORTS TO KEEP THE PRICES BASICALLY STABLE

The state raised by big percentages the purchasing prices of 18 agricultural and sideline products and the producer prices of some minerals and raw materials, and instituted a corresponding increase in the retail prices of eight non-staple foods and related products in 1979. As a result, the retail price index in December that year rose by 5.8 per cent as compared with the same month of the previous year. The retail price index in the first three quarters of 1980, as prepared by the State Statistical Bureau, remained the same as in November 1979 when the retail prices of eight non-staple foods were first raised. However, charges were made randomly and prices were raised in a disguised form in some localities. (For example, the selling prices of vegetables in the big and

medium-sized cities rose by an average of 13 per cent, and in some cities by 50 per cent in the first half of 1980, and the selling prices of bamboo, wood and leather products also rose). In view of the situation and the potential factors for further price increases, the State Council issued circulars on stabilizing prices on two occasions, in April and December, 1980. The December 7 circular in particular contained many important stipulations to cope with the seriousness and urgency of the price problem at that time. The prices at the open markets were relatively stable, but state-owned and collective enterprises and other undertakings had indiscriminately raised the retail prices of their products. The situation was such that strict control of the wanton raising of prices and that in disguised forms became the key to stabilizing prices. Therefore, in its December 7 circular, the State Council stipulated that as of December 7, "all industrial and agricultural commodities with list prices fixed by the state must be sold in all parts of the country at retail prices as fixed by the state, which must not be raised." The December 7 circular of the State Council also clearly stated that "the retail prices of all commodities fixed through negotiation in all big, medium and small cities, industrial and mining areas, county towns and towns below the county level must remain the same as those on December 7, 1980. They must not be raised, but may be reduced." It is obvious that particular stress was laid on the stabilization of the retail prices so as to ensure a stable life for the people and to consolidate political stability and unity. It also made strict policies on the question of negotiated prices.

In line with the State Council circulars, the local governments at all levels adopted many measures to carry out the stipulations of the State Council. The broad masses were mobilized in many localities to organize price check groups and price supervision groups of various forms to make a general survey of prices in shops, restaurants and wholesale enterprises. People's deputies, members of the political consultative conference and labour heroes in various parts of

China also took part in the check-up. The mass media gave wide coverage to the matter. The State Council and the governments of the provinces, municipalities and autonomous regions sent work teams to inspect price conditions, discover problems and make recommendations as to how to solve them. The State Council stipulations were carried out strictly and earnestly, and the prices in 1980 as a whole were basically stable.

Price rises and potential price fluctuations in recent years were mainly caused by the repeated financial deficits, with more currency issued by the banks than was needed for normal circulation of market money and by the big gap between the supply of commodities and purchasing power. These problems, in turn, were the result of the over-extension of the scope of capital construction and the fact that the total sum of accumulation and consumption exceeded the national income due to the guidance of long-term erroneous "Left" ideology. It is obvious that the fundamental way to stabilize prices is to rectify the "Left" errors, earnestly seek to reduce the scope of capital construction and tighten the control over the cash and credit payments. As long as such measures that will remove underlying causes are taken, along with strict control by the state and supervision by the masses, it is entirely possible to keep prices basically stable.

Chapter VII

BANKING

by Yang Peixin

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I. A BRIEF ACCOUNT OF THE DEVELOPMENT OF BANKING SINCE THE FOUNDING OF THE PEOPLE'S REPUBLIC

New China's banking began with the inauguration of the People's Bank at the end of 1948. It was immediately followed by the issuing of a currency — Renminbi. China's banking has developed in several stages as described below.

1. THE STRUGGLE TO ARREST INFLATION SHORTLY AFTER THE FOUNDING OF THE PEOPLE'S REPUBLIC

The first and foremost task in the economic field after nationwide Liberation was to heal the wounds of war, rehabilitate the national economy and prepare the conditions for large-scale construction. It was imperative to curb the inflation left over from old China. Before Liberation, the decadent rule of the Kuomintang government caused vicious inflation. The amount of banknotes circulating in May 1949 was 147.6 billion times that in 1937, the year when the anti-Japanese war started. And the prices skyrocketed 8,500 billion fold for the same period. The inflation wrought havoc in the national economy and caused untold difficulties to the people who urgently demanded stabilized prices.

China was in great financial and economic difficulty immediately after Liberation. The ravages of war and the reactionary Kuomintang rule led to depression of industry and agriculture, and the situation was compounded by serious floods in 1949. Grain production that year dropped by 25 per cent compared with 1936, the output of producer goods fell by

53 per cent and that of consumer goods by 50 per cent. Fighting blocked the exchange of goods between town and country, and made normal trade impossible. This caused much difficulty for the state revenues. At the same time, the support for the war to liberate all of China, the aid to flood victims, the effort to resume transport and production, and the policy of providing for the several million former Kuomintang military and administrative personnel — all required huge expenses. Failure to achieve a balance between revenues and expenditures entailed issuing more paper money. Law-breaking capitalists took advantage of this to buy large quantities of gold, silver, cotton yarn and cloth and engage in speculation and profiteering. Hence four waves of price increases hit China in April, July and November of 1949 and February of 1950. In this period, in order to stabilize the market situation, it was of first importance to strengthen monetary control and prohibit the circulation of gold, silver and foreign currencies. The People's Bank of China was instructed to buy and change gold, silver and foreign currencies and provide for deposits with the principal and interest safeguarded against price increases. Private banks, money houses and insurance companies were put under strict supervision; underground money houses and illegal credit institutions were banned. The government also stepped up the purchase and transport of major industrial and agricultural products and controlled foreign trade. During the waves of price hikes, the state-owned trading companies sold large quantities of goods at opportune moments, an effective way of dealing with speculators. These measures played a certain role in combating speculation and profiteering. But, to check the inflation at its source, it was necessary to strive for a balance between revenues and expenditures and to restrict the issuance of currency. That is why the Government Administration Council of the Central People's Government promulgated on March 3, 1950 the Decision on Unifying the Country's Financial and Economic Work. The main points of this decision were:

(1) Unify the country's fiscal revenues and expenditures. Concentrate the revenues in the hands of the Central Government for unified use in the state's major items of expenditure.

(2) Unify the transfer of materials and goods in the country. Important materials and goods under the control of the government were to be concentrated, instead of scattered, for use in regulating domestic supply and demand, organizing foreign trade, ensuring supplies at stable prices and recovering money.

(3) Unify cash control in the country. Put the cash scattered in the government offices, army units, organizations and state-owned enterprises under the unified control and centralized management of the People's Bank. The state bank was to establish more branch offices, act as the state treasury, reduce the currency in circulation and increase the amount of funds available for use by the government.

To carry out this decision, the People's Bank decided that its central task was to provide facilities for making deposits, set up the state treasury and dispatch funds in a flexible way. In a short time, cash was concentrated in the state bank, thus reducing the money in circulation and increasing the deposits in the banks. At the end of 1950, the total sum of deposits in the state bank rose more than six times the figure of nine months earlier. Huge sums of money were available to support the growth of state-run commerce so that the government acquired large quantities of materials and goods and the exchanges between town and country were activated.

Before long, all this resulted in a balance between fiscal revenues and expenditures, and between cash receipts and payments, and a balanced transfer of materials and goods. Commodity prices began to fall. The wholesale price index in December 1950 was 85.4 per cent of that in March of the same year. Thus, inflation was arrested and finances and prices were essentially stabilized, which created the necessary condi-

tions for rehabilitating the national economy and carrying out economic construction in a planned way.

Following the balanced revenues and expenditures in 1950, the issuance of banknotes was replaced by issuing credit. The total output value of industry and agriculture in 1952 rose by 44 per cent over 1950, and the total volume of retail sales went up 62 per cent. And the amount of currency in circulation was four times that in March 1950, while the prices fell by 7.4 per cent. The rapidly growing amount of money in circulation was due in part to a process of meeting the need of expanding production and commodity flow, but was chiefly due to the tremendous changes that had taken place in the circulation of money in the wake of stabilizing prices. In the cities, there was no longer panic purchasing, and the speed of money circulation slowed down. In the rural areas, bartering and silver dollar circulation disappeared, and the circulation of Renmenbi was expanded.

The process of curbing inflation and stabilizing prices in China shows that inflation was hardly avoidable just after the victory in a protracted revolutionary civil war. But because the policies adopted were correct, economic measures were powerful and the work was coordinated well among the financial and the banking and trading departments, the 12-year-old vicious inflation left over from old China was arrested in less than six months.

The new RMB was issued in March 1955. Every yuan of the new currency was worth 10,000 yuan of the old money. This finally eradicated the vestiges of the inflation and improved China's monetary system.

2. THE FIRST FIVE-YEAR PLAN PERIOD (1953-57)

Banking was consolidated and prices were stabilized during this period, but the role of the socialist banks was not

brought into full play owing to the mechanical transplanting of the Soviet experience.

In the course of socialist transformation during the First Five-Year Plan period, the banks actively used loans to support state-run commerce in expanding the number of orders placed with private industries and in carrying out the state unified purchase and sale of major farm and subsidiary products. The banks also granted huge loans for increasing agricultural production. In extending loans to private enterprises, the banks adopted such measures as encouraging them to accept socialist transformation and to increase the production of goods in great demand, thus promoting the transformation of private industry and commerce. In 1957 loans rose by 157 per cent over 1952. Of these, agricultural loans were up 560 per cent, industrial loans up 230 per cent, and commercial loans up 130 per cent. The proportion of agricultural loans in the total sum rose from 3.9 per cent in 1952 to 10 per cent in 1957, and industrial loans grew from 9.3 per cent to 12 per cent, while commercial loans dropped from 86.8 per cent to 78 per cent. During the First Five-Year Plan period, the total output value of industry and agriculture increased at an annual rate of 10.9 per cent, the volume of retail sales 11.4 per cent, and the money in circulation 13.9 per cent. The amount of currency in circulation was basically in keeping with the production and commodity circulation. Therefore, although 156 key construction projects were undertaken and the appropriations for capital construction grew at an average annual rate of 26 per cent in the five years, the money circulation was quite normal, the economy was prosperous, prices were stable, and the life of the people improved year by year.

However, from the beginning of this period, financial and bank funds were put under separate control in an effort to copy the Soviet practice. The banks also transplanted the Soviet system of setting credits, which limited the operations of bank credits. All this negatively affected the role of the socialist banks.

3. THE "GREAT LEAP FORWARD" IN 1958 WHICH RESULTED IN IMBALANCES IN MAJOR SECTORS OF THE NATIONAL ECONOMY AND SERIOUS INFLATION

During the "leap forward" period, banking, like the other sectors of the economy, was seriously handicapped by "Left" guidelines. Some self-styled "theorists" trumpeted for the abolition of commodities and money, asserting that the scope of commodity exchange was narrowed after the establishment of the people's communes and that money would soon become a nuisance. This of course affected banking in China. Thus credits and funds were supplied without limit. Bank loans were extended without considering economic results. The full supply of funds was emphasized so much that the prevailing slogan was "The banks should supply whatever funds the commercial departments need in purchasing products, and funds should be given wherever and whenever the purchases take place." All this aggravated the imbalances in the national economy as there was an enormous waste of funds and the currency issue got out of hand.

In 1959, financial burdens were increased by suspending domestic insurance businesses and abolishing the insurance funds which were intended to make up for losses by calamities and accidents.

The total sum of money in bank loans in 1960 was 3.49 times that in 1957, of which industrial loans went up 11.96 fold, commercial loans 2.34 fold, and agricultural loans merely 88.4 per cent. The proportion of different loans also changed greatly. Industrial loans rose from 12 per cent in 1957 to 41.3 per cent in 1960, commercial loans dropped from 78 per cent to 52.3 per cent, and agricultural loans fell from 10 per cent to 5.4 per cent. A more serious problem was that the aimless extension of loans yielded very poor economic results, so that later the banks were compelled to write off and exempt tens of billions of yuan in circulating funds and credits.

The money in circulation in 1961 was more than double that in 1957, resulting in a big difference between the social purchasing power and the supply of commodities, a rise in prices at market fairs, a decline in the living standards of workers and staff, and a drop in the bank savings deposits.

4. MEASURES ADOPTED TO RECOVER MONEY AND STABILIZE PRICES DURING THE READJUSTMENT PERIOD

In the early 1960s, the People's Bank was changed from an agency directly under the State Council to one at the ministerial level with a view to improving its role.

The Central Committee of the Party and the State Council made public in March 1962 the Decisions on Conscientiously Strengthening Centralization in Banking and Strictly Controlling Currency Issue. Following the decisions, the banks fortified centralized leadership in business, conscientiously implemented rules and regulations, strengthened credit supervision and cash control, tightened discipline in settling accounts, earnestly controlled money release and promoted readjustment. On the one hand, the implementation of rules and regulations compelled a number of enterprises which depended on bank credit and lacked the necessary conditions for keeping things going to shut down, suspend operation, be merged with others or changed over to the manufacture of other products; it forced other enterprises to strengthen business accounting and improve management. The irrational release of money was checked with determination. On the other hand, the banks actively supported industrial and agricultural production with the necessary funds; and it supported commercial departments in purchase and supply so as to accelerate the recovery of money and solve the problems of the excess amount of currency in circulation, the rising prices of some goods and the serious shortage of commodities.

The total sum of money in bank loans fell in 1965 by 33.2 per cent compared with 1960, of which industrial loans dropped

by 65.5 per cent, commercial loans came down by 14.8 per cent and agricultural loans rose by 31 per cent. The proportion of industrial loans in the total sum declined from 41.3 per cent in 1960 to 21.6 per cent in 1965, commercial loans grew from 52.3 per cent to 67.6 per cent and agricultural loans went up from 5.4 per cent to 10.6 per cent. Between 1962 and 1964, billions of banknotes were recovered and the money in circulation was reduced by 28 per cent compared with 1961. The social purchasing power was basically in keeping with the commodity supply, the prices at market fairs came down, some goods were sold at normal prices again instead of at higher prices as in the previous few years, commodity prices became stable and the markets returned to normal.

5. THE "CULTURAL REVOLUTION" WHICH DEALT A DEVASTATING BLOW TO BANKING

The "cultural revolution" delivered a crushing blow to banking and wrought havoc with the banks. The socialist banks were slandered as "economic bureaucracy" and incorporated into the financial departments. The socialist insurance, vilified as a means of protecting the bourgeois right, was abolished.

In this period, money exchange was repudiated as bourgeois right; interest was viewed as a means of exploitation and the interest rates were lowered several times; the recall of loans was likened to despotic landlords pressing for debts; and all the necessary rules and regulations were branded as shackles and discarded. The banks were almost totally dismantled. Under these circumstances, huge sums in circulation and credit funds were withheld by various enterprises, their turnover was slow and economic results were poor. There was an excess of currency in circulation.

Bank loans in 1976 were more than double the amount loaned in 1965, of which industrial loans were up 3.9 fold, commercial loans up 2.1 fold, and agricultural loans up 22.6 per

cent. The proportion of industrial loans in the total amount rose from 21.6 per cent in 1965 to 35.2 per cent in 1976, commercial loans fell from 67.6 per cent to 58.9 per cent, and agricultural loans dropped from 10.6 per cent to 5.4 per cent. A sizable amount in loans was used on overstocked goods, industrial and agricultural production stagnated, and the money in circulation more than doubled, resulting in an abnormal amount of currency in markets.

II. REFORM OF THE BANKING SYSTEM

1. PROBLEMS WITH CHINA'S BANKING SYSTEM

By the end of the "cultural revolution" in 1976, China's banking was confronted with a host of problems, just as other departments were.

Before Liberation in 1949, capitalist economy grew slowly in China and capitalist banking was underdeveloped. Most of the banks were concentrated in major coastal or trading cities. At the time of Liberation, the people's government moved into the big cities, bringing with it its own banks. But these banks were established in remote areas with the least developed commodity economy. The basic task of the banks in those days was to issue banknotes, make agricultural loans, ensure supplies and support the ongoing war. The functions of the banks were not fully utilized. During the First Five-Year Plan period, with emphasis put on learning from the Soviet Union the functioning of Soviet banks in the 1930s was virtually transplanted. Furthermore, the continuation of some methods used under the system of payment in kind during the revolutionary wars, and the influence of the erroneous "Left" line led to the abandonment of some traditional methods of operation and management which had been conducive to economic development. The social status of the banks was lowered and

their role greatly weakened. Bank loans covered very limited areas. Capital construction investment and fixed circulating capital were appropriated from the state coffers. The banks were left to grant seasonal, temporary loans for circulating capital. This Soviet principle of placing financial and bank funds under separate control put a straitjacket on the banks. Lenin said that under the socialist public ownership of the means of production, the role of the "big socialist banks" should be brought into full play. But his opinion was not esteemed. Under the influence of the Soviet model, the bank became nothing but a bookkeeper, cashier and mint-master.

For 30 years, capital construction investment and fixed circulating capital were appropriated gratis. This increased the amount of wasted funds and reduced investment results. Only two-thirds of the capital construction investment was turned into fixed assets in the country, only a fraction of which yielded economic returns. With the unpaid appropriation of capital construction investment, the departments and regions vied with one another to start more projects and obtain more investments, thus over-extending the scope of capital construction, worsening the imbalance between funds and goods, prolonging the building time and raising the construction costs. Some projects, when completed, were unable to go into full operation because of lack of raw materials or power, and the utilization rate of equipment was very low. As the fixed circulating capital was obtained gratis, the turnover rate was very low, and many products were unsaleable or overstocked. They had to be written off as losses every few years. Total losses amounted to several billion yuan a year. Under this financial and monetary system, the banks could not participate in the chain of expanded reproduction, nor could they act to regulate the national economy.

This transplanted Soviet principle was discredited by reality. In the mid-1970s, the Bank of China overcame obstacles to extend the Ministry of Communications a loan in foreign exchange for the purchase of ships. Beginning in 1978,

it granted loans for building small hydropower stations and producing equipment to mine gold. But these measures did not fundamentally alter the conventions copied from the Soviet Union.

2. PRELIMINARY REFORMS OF THE BANKING SYSTEM

China began reforming her economic systems under the guidance of the spirit of the Third Plenary Session of the 11th Central Committee of the Party and the policy of readjustment, restructuring, consolidation and improvement of the economy. The reform of the banking system is an important component of the restructuring of the economic systems. Three new things surfaced in 1979 with the reform of the economic systems in selected areas. First, the enterprises' decision-making power was extended, which helped the internal development of the socialist enterprises. Second, there was regulation through the market, which enabled enterprises to increase production and earnings at a time when they were threatened by falling orders and production quotas due to curtailed capital construction. Third, the banks granted medium- and short-term loans for equipment. The enterprises were allowed to retain a small portion of the profits they made and at the same time to receive limited depreciation funds. But these two items, even if lumped together, were still insufficient to cover the costs involved in introducing technical innovations, improving the quality of products, adding new varieties or increasing production. Moreover, enterprises could not obtain money from the financial departments as they had before, since the latter were no longer responsible for all the earnings and expenses of the enterprises. In these circumstances, the banks had to extend medium- and short-term loans for equipment, in order to support technical innovations so that the enterprises could really increase production and income which would benefit the state, the collectives and the individuals. If the banks had not taken the necessary steps in

this direction, the enterprises would have been in a helpless situation and the restructuring of the economic systems would have floundered. Therefore, the reform of the banking system became an indispensable part of restructuring the economic systems.

In October 1979 a Party leader suggested replacing the financial appropriations with bank credit. He said that banks could enter the economic field as a lever in economic development and technical innovations. Acting now as bookkeepers and cashiers, he pointed out, the banks were not playing their due role. As regards enterprises which required small investments and could get quick returns, he suggested, they should be supplied with bank credit instead of state appropriations. He pointed out that banks could extend loans to many factories which only needed several thousand yuan or tens of thousands of yuan and the sum could be recouped in a year or so. If this worked, he observed, more branch offices should be set up. He held that the Construction Bank should also become a lever and that since it was called a construction bank, it must not be confined to settling accounts and working on the abacus. It should explore new areas of work, learn to do economic work and to do business, he noted.

One of the focal points in banking reform is for the banks to extend loans for capital construction and to participate in socialist production expansion. The aim is to practise economy, make rational use of funds and promote the proportionate development of the socialist economy.

Accordingly, the People's Bank of China started to extend medium- and short-term equipment loans to existing enterprises. The 1980 planned credit ceiling was 5 billion yuan, of which 2 billion was ordinary medium- and short-term loans to be granted by banks and their branches, and the other 3 billion was special loans to be approved by the State Council for use in the textile and other light industries, electronics, transport, railway, metallurgical and other fields. By the end of 1980, a total of 4.2 billion yuan had been loaned, of which ordinary

loans came to 1.95 billion yuan and special loans to 2.2 billion. The medium- and short-term loans were meant first of all to support the production of consumer goods in the textile and other light industries. In 1980, light industrial enterprises got 970 million yuan in equipment loans. In one year's time, they produced an additional 690,000 bicycles, 440,000 sewing machines, 370,000 wrist watches, 25,000 tons of beer, 21,000 tons of quality wines and 2 million pairs of leather shoes. Secondly, the loans supported the old plants in switching to the manufacture of saleable goods. The Heavy Rolling Mill of the Chongqing Iron and Steel Company used discarded equipment to refit its 265mm rolling mill to produce saleable small rolled steel for the building trades. The project was started in March 1980 with 50,000 yuan of bank credit, and went into production two months later. Soon a profit of 120,000 yuan was netted and the loan paid off. Thirdly, the loan was used to support enterprises' energy conservation measures. The Shanghai No. 25 Cotton Mill got a bank credit of 26,000 yuan for changing 8 single-speed blowers into three-speed ones. The work was done in June 1980, and in two months more than 200,000 kwh of electricity was saved. The amount the mill saved in electricity bills in one year was enough to repay the loan. A one-million-yuan loan was granted to the Nanhai Sugar Refinery in Guangdong to start a project of generating power with residual heat. The project was completed in five months. The refinery used to consume 750,000 kwh of electricity from a power grid; now it has even 340,000 kwh of electricity to spare for distribution by the grid, increasing profits by 470,000 yuan and saving 9,000 tons of coal. Fourthly, the loans were used to develop transport and tourism, expand exports and provide more jobs. Special medium- and short-term loans totalling 560 million yuan were extended in 1980 to railway and other transport units for the purchase of 10,048 freight cars and coaches and 317 ships and boats. Zhejiang Province is crisscrossed with rivers and streams, but the boats in service are outdated and consume much energy. The 38

shipyards in the province have a combined capacity of building 45,000 tons of boats, but the 1980 orders amounted to a mere 29,000 tons. They secured a bank loan of 15 million yuan to build 150 more boats totalling 18,000 tons, for which an overstocked 5,000 tons of rolled steel and some mechanical and electrical products were used. Bank loans were also provided to support the production of lace and other products with the result that an additional 13.9 million U.S. dollars in foreign exchange was earned in 1980. Guangdong banks backed the increased production of firecrackers and fireworks in Nanhai, which earned 1.45 million U.S. dollars. Zhejiang banks also extended over 10 million yuan in loans to 47 labour-intensive projects, which provided 9,500 jobs.

In this way, medium- and short-term equipment loans have promoted economic readjustment. In 1980, the output value of light industry rose by 18.4 per cent and the proportion of light industry in the total industrial output value grew from 43.1 per cent to 46.9 per cent. In Liaoning Province, it is estimated, 19.5 per cent of the increase in light industry was due to the support of bank loans. In Shandong Province, bank loans contributed to 22.4 per cent of the gains in local light industry. With a short period for repayment and good results, the medium- and short-term equipment loans blaze a new trail for investment. In 1980, First Light Industry Bureau of Liaoning, borrowing 39.39 million yuan from the banks in medium- and short-term equipment loans, increased output value by 180 million yuan, taxes by 42 million yuan and profits by 29 million yuan. The loans were repaid in seven months. Every yuan of loan produced 4.5 yuan in output value and 1.7 yuan in taxes and profits a year. The Second Light Industry Bureau of Sichuan obtained a bank loan of 11 million yuan which produced an additional 140 million yuan in output value and 22 million yuan in taxes and profits, and the loan was cleared in six months' time. In this case, every yuan of loan produced 12.7 yuan in output value and 2 yuan in taxes and profits a year.

The Agricultural Bank of China provided equipment loans of 123 million yuan for state farms in 1980. The Longzhen Farm in Dedu County, Heilongjiang, used to suffer chronic losses because it lacked necessary farm machinery and implements. In 1980 it got 300,000 yuan in loans to purchase 15 tractors, 19 harvesters and driers, and 22 trailers. This made it possible to start harvesting the wheat crop 15 days earlier than usual so that it was completed before the rainy season set in. The farm brought in 25 kg more of wheat per *mu*, increased its earnings by 180,000 yuan, and cut transport fees by 48,000 yuan, thus reversing the chronic deficits. The Xiaoshan County Cotton and Ramie Experimental Farm in Zhejiang Province borrowed 500,000 yuan from a bank to renovate its small beer brewery by installing 20 fermentation tanks with a combined capacity of 500 tons, and adding a malt workshop. Its output was raised from 200 tons to 500 tons, and the production cost per ton was lowered from 350 yuan to 270 yuan. Thus it netted 500,000 yuan in profit a year and turned over to the state more than 300,000 yuan in taxes.

The People's Construction Bank of China substituted credit for financial appropriations on an experimental basis. The Shanghai Non-Ferrous Metal Rolling Plant originally planned to build a workshop with an annual production capacity of 10,000 tons of copper strips. The higher-level management wanted to supply it with a rolling mill capable of producing 400,000 tons a year and approved an investment of 6.85 million yuan. With the replacement of state appropriations by bank credits, the plant management decided to shelve the project, because the rolling mill, once installed, would lie idle three-quarters of the year, which would cost the plant an additional 200,000 yuan in interest a year. Because bank loans must be repaid with interest, the Liaoyang General Petrochemical Fibres Plant postponed 19 construction projects, thereby channelling 15.26 million yuan into areas that could put it to better use. At the same time, the plant disposed of

overstocked products and collected outstanding accounts so as to reduce debts to the bank.

Based on the experience gained in selected areas, the banking reform in China will proceed in two ways. The People's Bank of China, the Agricultural Bank of China and the Bank of China will continue extending small medium- and short-term credits to enterprises for equipment renewal and technical transformation if they produce quick results. As for capital construction investment, financial appropriations will be replaced by bank credit. For units which do independent business accounting, have business incomes, and are able to repay, all budgetary capital construction investment shall be replaced by credits from the Construction Bank. These units include those in industry, transport and communications, agriculture and forestry, land reclamation, animal husbandry, aquatic products, commerce, tourism and culture. The old method of financial appropriations will continue to apply to administrative, educational, health, national defence and scientific research units which are unable to repay.

In addition, banks have conducted reforms in the following:

(1) They have undertaken trust and investment business on an experimental basis and resumed domestic insurance in order to meet the needs of economic reforms.

(2) They have provided loans according to market need and economic results instead of planned quotas. They have followed the credit policy of differentiating between enterprises with varying capabilities and providing support to units with better potential, thus promoting the response of production to demand and improving the utilization rate of funds.

(3) They have promoted the leverage role of interest rates by adjusting the rates on savings deposits twice, paying interest on special funds deposits which earned no interest in the past, and instituting the system of charging a higher rate on

overdue loans, thus increasing the amount of deposits and bringing about a more rational use of loans.

(4) They have developed along specialized lines. The Agricultural Bank was reinstituted, more branches of the Bank of China and the insurance company were set up.

(5) In credit planning and management, they have adopted the method of unified planning, decentralized administration, linking deposits with credit, and holding branch offices responsible for the deficits. This is the first step towards changing the overconcentration of power in handling bank deposits and credits and expanding to varying degrees the power of the banks at all levels in use of funds.

(6) They have launched preliminary study and research of banking information. This has provided data for keeping banks abreast of the changes in domestic and foreign markets and important economic developments, improving their credit work and implementing the policy of differentiating between enterprises with varying capabilities and giving support to units with better potential.

(7) They have practised business accounting and tried out profit sharing in a few selected local branches. This has spurred on the improvement of management and operation.

(8) They have put the bank workers under the dual leadership of the bank authorities and the local governments, with the former assuming the chief responsibility, thus keeping cadre administration in line with business administration.

(9) They have reestablished the China Finance Society and strengthened investigations and study in banks at all levels. These reforms, though moving in the correct direction and yielding good results, are still preliminary ones. They are also opposed by the "Left" trend of thought and old habits. To suit the needs of economic readjustment and restructuring and to make the bank play a better role in regulating the economy, it is necessary to push ahead with the reform of the banking system.

3. DEMAND FOR FURTHER REFORMS

The further reform of the banking system requires extending the power of the banks in handling their business.

(1) The banks should have the power to handle loans. Without this, the banks are merely a second appropriations agency. In order to act as an economic lever, regulate the national economy and raise the utilization rate of funds, the banks must be invested with the power to handle loans.

Loans should be granted in line with government credit policy, lending priorities and loans ceiling. But the banks should have the power to decide on whether to grant a loan to a particular unit, on the size of the loan, the length of maturity and the interest rate. They should supervise the use of loans. At the same time, they should be held responsible for the consequences of the loans. A bad debt should be reimbursed from the earnings of the bank. No administrative agency should be allowed to force the banks to extend loans.

(2) The banks should have the power to regulate interest rates. The rates should be regulated flexibly from time to time to suit the need of the growing economy. The People's Bank of China should, in accordance with the government policy on interest rates, decide on the standard rates and the range of their fluctuation according to different trades and maturity periods. The specialized banks and other monetary establishments can set their own rates within the framework of the standard rates.

In taking deposits, the banks should employ economic means including the interest rates policy. Interest should be paid on the deposits of units with their own business incomes and on the cash surplus from the funds of the government offices, organizations and army units if it is put in the bank as a time deposit. No interest should be paid on the current deposits from the state treasury, and other government offices, organizations and army units, and no fees should be charged on their remittance.

(3) The banks should have the power of operation and management. They should conduct independent business accounting, adopt profit sharing, establish a business development fund, welfare fund and bonus fund. They should have the power to expand or reduce their operations, to decide on the size of their staffs, and to recruit or dismiss their personnel in the light of their own needs.

Banks are enterprises, not government offices. Therefore, if controls put on the size of bank staff are as strict as those on government staff, that will affect the development of the banking business. The total amount of bank savings, for instance, is much greater at present than it was before the "cultural revolution", but the number of savings offices is reduced so much that people have to stand in long queues to deposit their money. From now on, the banks should set up offices in the light of the development of their business, opening more savings offices where savings deposits are increasing and removing offices from where savings deposits are declining. The size of the staff should also be adjusted according to actual business needs. In the past, the banks also applied the method of "sharing food from the same big pot", which was detrimental to the expansion of the banking business and prevented the bank staff from raising their proficiency. Under the principle of combining the interests of the state, the collectives and the individuals, the banks should adopt profit sharing and establish a business development fund, welfare fund and bonus fund. The development fund will be used for improving the working conditions and operational facilities, the welfare fund for increasing the well-being of the staff, and the bonus fund for encouraging the staff to better operation and management.

Bank staff should be administered internally under vertical management to help staff development. At the same time, the banks should draw money from their business incomes to run financial institutes and schools to train their own staff. China's bank staff are insufficient by both qualitative and

numerical standards. In the United States, bank employees constitute 4 per cent of the total work force. China is far from that, so she should train her own bank staff and replenish the present staff in a planned way. This is a precondition for fully utilizing the bank's role.

III. BANKING INSTITUTIONS IN CHINA

China's banking operations consist of the People's Bank of China, the Agricultural Bank of China and the credit cooperatives in the rural areas, the Bank of China and the State General Administration of Exchange Control, the People's Insurance Company of China, the People's Construction Bank of China and the China International Trust and Investment Corporation.

1. THE PEOPLE'S BANK OF CHINA

The People's Bank of China is operated by the state and is the only agency in the country authorized to issue currency. It is a state-designated agency for banking administration and also an establishment for handling credits. The People's Bank is under the leadership of the State Council. It is also entrusted by the State Council to oversee the Agricultural Bank of China, the Bank of China and the State General Administration of Exchange Control.

The functions of the People's Bank are: to issue RMB as authorized by the government; to formulate the general and specific national policies on banking matters, interest rates and major bank administration systems; to implement the government monetary and banking policies; to handle credits and

settle accounts, give scope to the bank's role as an economic lever, support the proportionate development of the national economy and serve socialist construction.

The basic responsibilities of the People's Bank of China are:

(a) To monopolize currency issue and regulate currency circulation in line with government regulations;

(b) To attract deposits from various units and individuals to collect funds for socialist construction; to grant industrial and commercial loans to expand production and commodity circulation; to provide medium- and short-term equipment loans and gradually increase capital construction loans, both to support old enterprises in tapping their potential, replacing their equipment and introducing technical transformation and engaging in reconstruction or expansion;

(c) To map out the national credit and cash plans and organize their implementation;

(d) To exercise unified control over gold and silver, regulate the monetary market and enforce cash control in line with government decrees and authorizations;

(e) To handle the settlement of accounts in town and country;

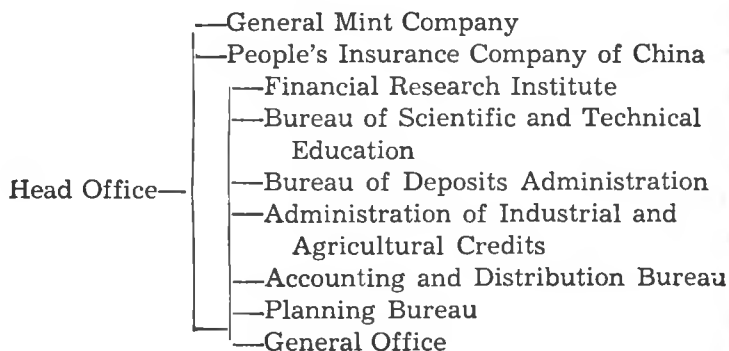
(f) To act as the state treasury and handle fiscal revenues and expenditures;

(g) To decide on the rates of interest and the exchange rates;

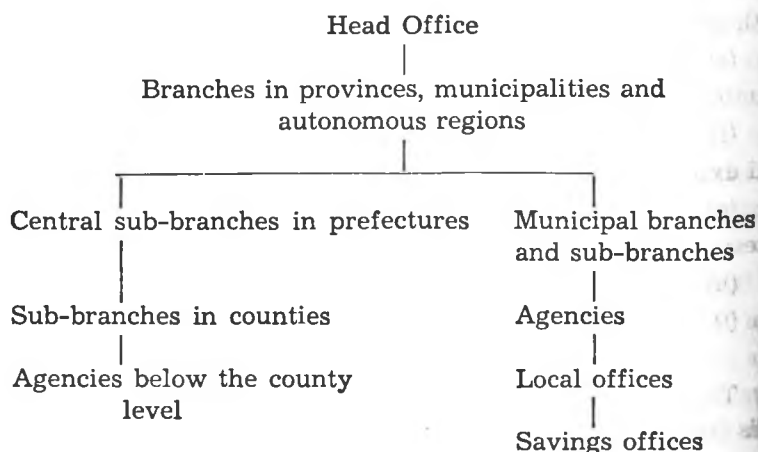
(h) To conduct research and study in the banking field;

(i) To provide economic information and forecasts.

The operational structure of the Head Office of the People's Bank of China is:



The People's Bank of China has branches in the provinces, municipalities and autonomous regions, central sub-branches in the prefectures, sub-branches in the counties, and agencies in the bigger towns and industrial and mining areas. It has municipal branches in bigger cities under the jurisdiction of the province, and municipal sub-branches in other cities under the province. Under the municipal branches and sub-branches, there are agencies in various districts and, if necessary, local offices and savings offices under the agencies, as shown below:



By the end of 1979, the bank had more than 15,000 units all over the country. They include the head office, 29 provincial branches, 148 municipal branches and sub-branches, 220 central sub-branches, 2,277 county sub-branches, 886 city agencies, 2,042 local offices, 6,790 savings offices, and 2,883 agencies below the county level.

By the end of 1979, the bank had a staff of more than 330,000.

2. THE AGRICULTURAL BANK OF CHINA

A specialized bank agency serving the rural areas, the Agricultural Bank is under the direct control of the State Council and is placed under the authority of the People's Bank of China by the State Council.

The functions of the Agricultural Bank are: to work out, in line with the Party's policies and government plans, the country's unified general and specific policies and systems concerning banking in the rural areas; to exercise unified control over agricultural aid funds, and organize, collect and regulate funds for rural use. The bank should firmly implement the government rural policies in handling rural credits for farming, industrial and commercial purposes and support the communes, production brigades and teams and state farms in developing a commodity economy and the commune members in developing household sideline occupation so that the collectives and the individuals can make financial gain as rapidly as possible; support the rural areas' commercial departments in their efforts to fulfil their purchase plans and promote the exchange of goods between town and country; give leadership to the rural credit co-operatives; and expand the rural banking work and serve the modernization of agriculture.

The basic responsibilities of the Agricultural Bank are:

(a) To formulate the banking policies and systems in the rural areas;

(b) To map out the country's rural credit plan and organize its implementation;

(c) To supervise and disburse agricultural appropriations of the financial departments (except capital construction appropriations for farming, forestry, water conservancy and meteorological services); to supervise and disburse the commercial departments' advance payments for future purchases and the agricultural aid funds collected by various departments;

(d) To handle deposits from the state-owned and collectively owned enterprises and establishments in the rural areas and to handle savings deposits there;

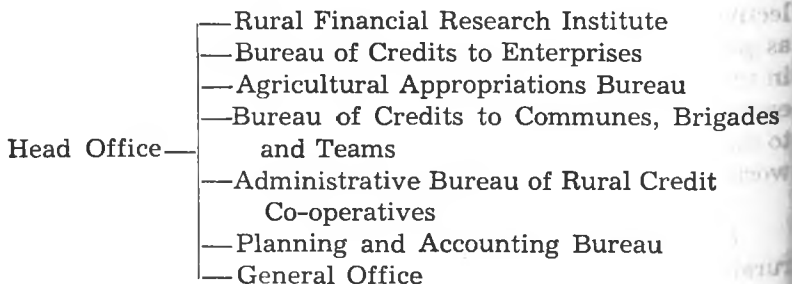
(e) To grant loans to state-owned agricultural enterprises, rural collective economic units, rural commercial departments, agricultural-industrial-commercial associations and commune members;

(f) To exercise cash control and handle the transfer and settlement of accounts in the rural areas;

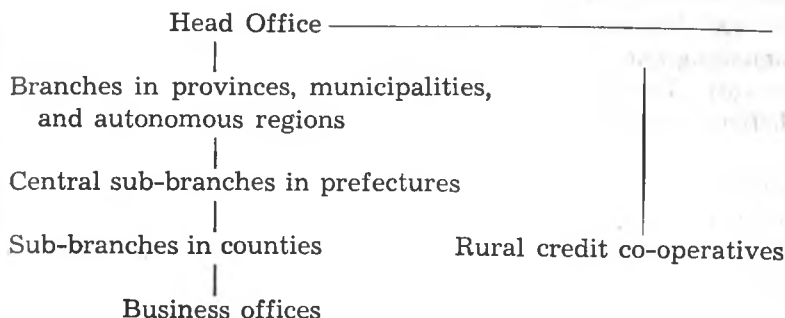
(g) To give leadership to the rural credit co-operatives;

(h) To help the rural collective economic units manage and use their funds well and assist the agricultural departments in training bookkeepers for the communes, production brigades and teams.

The operational structure of the Agricultural Bank is:



The Agricultural Bank has branches in the provinces, municipalities and autonomous regions, central sub-branches in the prefectures, sub-branches in the counties, and business offices in locations below the county level.



In 1980, there were 27,829 units of the Agricultural Bank at various levels. They include the head office, 28 branches, 288 central sub-branches, 2,211 county sub-branches, and 24,803 business offices, staffed by 284,655 people.

The Rural Credit Co-operatives

Rural credit co-operatives are collectively owned financial agencies in the rural areas. The money for shares, property and public accumulation in the credit co-operatives are collectively owned. The co-operatives do independent business accounting and assume sole responsibility for their profits or losses. They are paid fees for the services entrusted by the bank.

The functions of the rural credit co-operatives are, under the leadership of the Agricultural Bank, to handle rural banking business, to implement the country's unified banking policy, to strive to support the communes', brigades' and teams' development of agricultural production, deal blows at usury and speed up the modernization of agriculture.

The basic responsibilities of the credit co-operatives are:

- (a) To actively centralize scattered funds within the rural areas, provide facilities for making deposits and offer loans;
- (b) To handle the transfer and settlement of accounts and exercise cash control in the rural areas;
- (c) To assist the communes, brigades and teams in managing and using their funds well;
- (d) To help the commune members with their financial difficulty in sideline occupations or in life and to thwart usury.

A credit co-operative is established where there is a rural people's commune. If there are both a bank office and a credit co-operative in a given people's commune, the office and the co-operative operate as an association, practising unified business accounting and sharing the profits with each other. The staffs are under a unified leadership, doing business together. If there is only a credit co-operative in a given commune, then the co-operative doubles as an agricultural bank office, undertaking the business of the bank in the rural areas. Branches are established in locations within the people's commune where economic activities are concentrated or in remote and scattered places. These branches do not practise independent business accounting, but merge their accounts with the credit co-operative at regular intervals. This also applies to credit stations in the production brigades of a commune.

By the end of 1979, there were 60,000 credit co-operatives, 22,000 branches and 328,000 stations. They were staffed by 263,000 full-time staff and 366,000 part-time assistants.

3. THE BANK OF CHINA

The Bank of China is a state-designated import and export bank and a specialized bank dealing with foreign exchange business. It is under the direct control of the State Council and is placed under the authority of the People's Bank of China by the State Council.

The functions of the Bank of China are to use all favourable factors to conduct international financial exchanges in line with the country's foreign policy, to actively and prudently organize and utilize foreign funds in accordance with government policies and plans, to strive to increase trade and non-trade foreign exchange earnings, to support the expansion of exports, to build up foreign exchange accumulation, and to economize on foreign exchange expenditures, to increase the country's ability to pay for the import of advanced technologies and equipment in the interest of the socialist modernization.

The basic responsibilities are:

(a) To deal with foreign currency deposits and RMB deposits related to foreign exchange business, and to handle import and export credit and foreign exchange loans;

(b) To deal with the settlement of international accounts in the import of advanced technologies and equipment, the processing of materials supplied by foreign customers, joint ventures and compensatory trade;

(c) To handle international remittance and exchange and remittance by Chinese nationals residing abroad;

(d) To deal in the buying and selling of foreign currencies throughout the country.

The operational structure of the Head Office of the Bank of China is shown in the following chart:



The Bank of China and the joint state-private banks include a board of directors and a supervisors' committee.

The Head Office of the Bank of China is in Beijing. It has 114 domestic branches in major ports and cities where there is a big volume of foreign exchange business. It has branches in Hongkong, London, Tokyo, Singapore and Luxembourg. Its agencies can be found in all the major countries and regions in the world. The bank has business connections with 2,735 branch offices of 1,033 banks in 144 countries and regions. Since 1978, China has signed credit agreements with Britain, France, Italy, Japan, West Germany, Sweden, Canada, Norway, Australia, Belgium and Argentina. Her relations with U.S. banks have also developed.

The State General Administration of Exchange Control

The State General Administration of Exchange Control is China's exchange control agency. It is under the direct control of the State Council and is placed under the authority of the People's Bank of China by the State Council.

The administration is in charge of formulating exchange control decrees, exercising unified foreign exchange control in the country, checking and supervising all items of trade and non-trade foreign exchange earnings and spendings, planning and balancing foreign exchange earnings and spendings, and making public the rates of exchange between RMB and foreign currencies.

The State General Administration of Exchange Control has its subdivisions in the major ports with a huge volume of foreign exchange business.

4. THE PEOPLE'S INSURANCE COMPANY OF CHINA

The People's Insurance Company of China is a specialized company handling domestic and foreign insurance and rein-

insurance. It is under the leadership of the People's Bank of China.

The functions and basic tasks of the People's Insurance Company of China are: to underwrite insurance for all sorts of property involved in China's economic relations with foreign countries, for property in domestic economic construction, and for personal property and life; to take measures to prevent losses in advance and provide economic compensations for losses if they occur; to protect through insurance the property of the state so as to promote the normal production in enterprises, the smooth exchange of goods and improvement in the well-being of the people; to reduce the risks of loss through international reinsurance; and to accumulate funds for the state through insurance.

The company's main lines of business are:

(a) To handle insurance for all kinds of property including the property of enterprises under different types of ownership, goods transported, transportation means (including ships, motor vehicles and aircraft) and personal property;

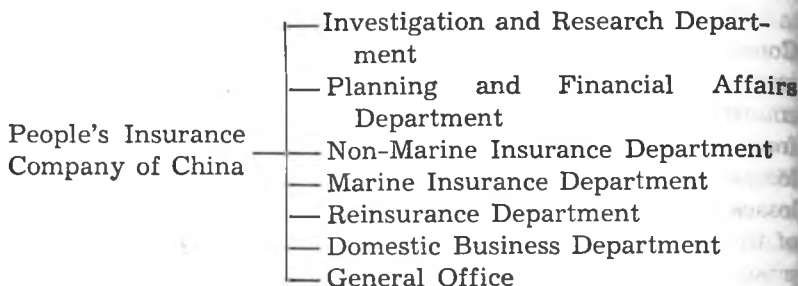
(b) To handle all kinds of international insurance, including the insurance for the transportation of imported and exported goods, ocean shipping insurance, insurance for aircraft on international routes, insurance for all kinds of property related to foreign nationals (including foreign nationals' property insurance, transport insurance and motor vehicle insurance); all kinds of special insurance related to the import of complete plants and equipment, processing supplied materials, and compensatory trade; offshore oil exploration insurance, all construction risks insurance, all erection risks insurance, and machinery damage insurance;

(c) To handle all kinds of liability insurance, guarantee insurance and political insurance;

(d) To handle all kinds of life insurance, including life insurance for groups and simple life insurance;

(e) To underwrite all kinds of international reinsurance.

The operational structure of the company is:



Besides the People's Insurance Company of China, there are also joint state-private insurance companies — the China Insurance Company Ltd. and the Tai Ping Insurance Company Ltd. Headquartered in Beijing, the two companies have branch offices in Hongkong, Macao and Singapore, doing insurance business there.

By the end of 1980, the People's Insurance Company of China had 300 branch and sub-branch offices in various provinces, municipalities, autonomous regions and major cities such as Shanghai, Guangzhou, Fuzhou, Tianjin, Beijing, Dalian and Qingdao. It has established business ties with more than 960 insurance or reinsurance companies in 126 countries and regions. It has set up the Asia Reinsurance Company in Thailand as a joint venture with funds from Thailand, the Philippines, Bangladesh, India, Bhutan and Sri Lanka; the China Reinsurance Company in Hongkong in co-operation with Hongkong's Ming An, Chung Pao and Pacific insurance companies; the China-America Insurance Company in Bermuda; and an insurance conglomerate together with 13 insurance companies in Britain, the United States and Canada, which participates in the New York Insurance Exchange.

The People's Insurance Company of China has a staff of 5,000.

5. THE PEOPLE'S CONSTRUCTION BANK OF CHINA

Specializing in the management of funds appropriated by the state for capital construction, the People's Construction Bank of China is under the direct control of the State Council and is put under the authority of the State Capital Construction Commission and the Ministry of Finance with the latter assuming the chief responsibility.

The functions of the Construction Bank are to disburse appropriations, issue loans and settle accounts with regard to capital construction projects undertaken with state investments, to handle deposits of the construction and erection enterprises, geological prospecting enterprises and enterprises engaging in the supply and marketing of capital construction materials, provide loans to them and settle accounts for them, and supervise the use of appropriations and loans.

The basic responsibilities of the Construction Bank are:

(a) To issue capital construction loans to industrial, transport, agricultural, forestry, water conservancy, commercial, tourist and cultural enterprises which do independent business accounting, have business incomes and are able to repay;

(b) To disburse capital construction appropriations for administrative, educational, health, national defence and scientific research units which have no ability to repay;

(c) To provide loans for all kinds of economic co-operation between domestic enterprises and overseas firms, such as loans for the construction of accessories in China for imported equipment and technologies, compensatory trade, processing supplied materials, contracting for buildings overseas, and mineral resources exploration;

(d) To handle the settlement of accounts and loans in engineering projects;

(e) To manage budgets and final accounts concerning capital construction.

The Construction Bank has branches in the provinces, municipalities and autonomous regions and 2,500 sub-

branches and offices at the prefectual, city and county levels.

6. THE CHINA INTERNATIONAL TRUST AND INVESTMENT CORPORATION

Founded on October 4, 1979, the China International Trust and Investment Corporation is a state-owned enterprise under the direct control of the State Council.

The chief functions and basic responsibilities of the corporation are to absorb long-term investments in China from Chinese nationals residing abroad, Chinese compatriots in Hongkong and Macao and from foreigners, to set up joint ventures, organize co-operative production and undertake leasing; and to make investments with foreign capital it collects.

The corporation has conducted negotiations with foreign firms on more than 100 projects. Contracts have been signed on 10 of these projects and protocols or minutes of talks have been initialled on more than 50 others. It has made extensive contacts with foreign banks and financial institutions, with which it has signed a dozen co-operation agreements and established business ties. It has started lending and borrowing business or has agreed on the ceiling of credit with some of them. A number of foreign firms and institutions express readiness to provide the corporation with medium- and long-term trusts and investments. Some foreign security companies wish to act as its agents in issuing its foreign currency debentures.

Chapter VIII

FINANCE

by Xu Yi and Chen Baosen

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THE ten years of "cultural revolution" caused havoc in China, bringing chaos to the economy, exhausting financial resources and emptying the state coffers. By 1974, there was an imbalance between revenue and expenditure. For three years running there were deficits in the final state accounts, and China was in financial difficulties.

Finance reflects the national economy as a whole. Financial difficulties are a concentrated reflection of what is wrong with the national economy.

The first consequence of wrecked production is lack of financial resources. Stagnant industrial and agricultural production in that decade caused a sharp drop in the speed of growth of the national income. The wealth created by every 100 yuan of accumulation fund fell considerably. According to rough estimates, the figure was 35 yuan during the First Five-Year Plan period, 57 yuan during the three-year readjustment period (1962-65), 20 yuan in 1966-75 and 22 yuan during the Fifth Five-Year Plan period.

Lack of financial resources was also due to chaotic management and enormous enterprise losses. In 1976, China's state-run enterprises suffered losses totalling 17.7 billion yuan, more than three times or 11.9 billion yuan more than the figure of 5.8 billion yuan in 1965.

In expenditure, the main cause of financial difficulties was the aimless expansion of capital construction regardless of national resources. This was because the economic work was under the guidance of "Left" ideology. Investment in many projects yielded no returns. From 1970, this situation became even more serious. During the First Five-Year Plan period 37 per cent of the total fiscal expenditure was allocated for capital construction and for developing the potential of existing enterprises and improving them. It was 30.1 per cent

during the three-year readjustment period. In 1970 it rose to 45.9 per cent and kept to around 40 per cent until 1976. Over-ambitious capital construction meant that many projects were slow in realizing their overall production capacity. The total investment in capital construction during the Fourth Five-Year Plan period (1971-75) was more than twice that during the First Five-Year Plan period, but the number of projects completed and commissioned rose by less than a quarter. A total of 2,963 big and medium-sized projects were started in 1971-75, but only 742 of them were finished and went into production. Already constructed fixed assets were unable to provide further accumulation. The value of the fixed assets of industrial enterprises doing independent business accounting increased from 96.1 billion yuan in 1965 to 249.5 billion yuan in 1976, a rise of 160 per cent. But the profits and taxes they paid to the state only increased by 79 per cent from 28.1 billion yuan to 50.4 billion.

As the financial situation deteriorated, the growth in revenue slowed down too. State revenue rose by an annual 11.1 per cent in the First Five-Year Plan period, 7 per cent in the Third Five-Year Plan period, and 4.3 per cent in the Fourth Five-Year Plan period. There was a deficit for the first time in 1974 with expenditure exceeding revenue by 770 million yuan. The difference was 530 million yuan in 1975 and 2.96 billion yuan in 1976. In these three years, as a result of the violence stirred up by the "gang of four", factories suspended production or stopped it altogether. In many provinces nearly all locally-run state enterprises suffered losses. These three years saw a loss of 30 to 40 billion yuan in state revenue.

With the downfall of the "gang of four" in October 1976, China's financial work revived. History posed before the financial departments the great task of accumulating funds for socialist modernization. However, the financial work still suffered many setbacks in 1977-80 because of the failure to break free from the influences of "Left" ideology.

I. STATE BUDGET

1. SOURCES OF STATE REVENUE AND THE PRINCIPLES GUIDING STATE BUDGETING

The state budget in socialist China covers the bulk of the country's financial resources, and it is the most important means by which the state allocates funds in a planned way. It reflects the policies of the country as a whole and sets down the direction and scope of all government activities.

The main source of China's revenue is the part of the social products devoted to social funds, in other words, the surplus products created by the working people for society. These surplus products were and are the material basis for the political, economic and cultural development and progress in all societies.

Another source of state revenue is part of the compensation funds, that is, the depreciation of state enterprises. The reason why depreciation is a source of revenue for the state is that when it is not used to replace a worn-out machine which has not yet been completely discarded in fact, it can be used temporarily as accumulation funds to expand production. At present, the depreciation funds of state enterprises are largely retained by the enterprises themselves, only a small proportion being included in the state budget to be used to renovate and transform existing enterprises throughout the country.

In China, not all financial resources are included in the state budget. There are also extra-budgetary funds. These include the funds controlled by the local financial authorities (additional taxes, sharing of profits made by county-run industries, etc.), extra-budgetary funds controlled by the administrative units (road maintenance costs, tuition fees, income from urban public utilities, house rent, etc.) and funds in the state enterprises (funds for replacement and improvement, maintenance costs for the mining enterprises, enterprise fund, sharing of profits, etc.). The extra-budgetary funds

which came to about 10 per cent of the budgeted funds before 1957 rose to about 20 per cent from 1958 to 1967, and now amounts to roughly 40 per cent.

It is both possible and necessary for the state budget in China to cover the bulk of the financial resources.

This is possible because China's revenue comes chiefly from socialist enterprises which are owned by the state. The net income they create is naturally owned and controlled by the state. That is to say, the inclusion of the income from the state enterprises in China's state budget is based on the nature of the ownership of the means of production.

This is necessary for several reasons. First, it is for the sake of developing the national economy in a planned and balanced way. There are hundreds of thousands of enterprises, 29 provinces, municipalities and autonomous regions and over 2,000 counties in China. Owing to varying natural resources, equipment and other subjective and objective causes there are very big gaps between the funds accumulated by different enterprises and localities. If every enterprise or locality retained all the net income it creates for its own development, there could be no planned, balanced development of the national economy, still less the rational distribution of industry and agriculture. In order to avoid excessively unequal sharing of wealth between enterprises and between localities and lop-sided development, it is necessary to give scope to the regulatory role of the state budget. Second, it is also imperative to bring into play the re-distribution function of the state budget in order to use the net income from material production to develop science, culture, education and public health and to maintain the defence capabilities and the state apparatus. Third, it is even more necessary for the state budget to regulate the limited financial resources so as to spend it on major, strategic areas that have a bearing on the whole country.

To budget well, it is necessary to stick to the principle of balancing revenue and expenditure with a slight surplus. Planning the budget calls for collecting the maximum amount

of revenue, cutting expenditure to the minimum and setting aside a fixed reserve, so as to maintain a steady growth in the national economy and gradually improve the people's standard of living. China does not advocate deficit financing. Because China has a different social system from Western countries, she does not need to resort to deficit financing to stimulate economic growth as they do when there are over-production and insufficient investment. For China, deficit financing means that the total state expenditure exceeds the national income and the scale of development is greater than financial capacity. It will inevitably lead to inflation, price rises and a drop in the real income of the labouring people, thus affecting political stability and unity. China does not advocate deficit financing but this does not mean that there have never been financial deficits in our country. They did occur several times because of mistakes in our work and the damage caused by "Left" ideology. For instance, between 1958 and 1960 financial outlays more than once exceeded state revenues. The state budgets appeared balanced. In fact, because of boastful exaggeration false items of income were included and the final state accounts were in the red. Financial deficits occurred in 1967 and again in 1974, 1975 and 1976. Because measures were promptly adopted to remedy the situation, for the 27 years before 1976 (1950-76) the total budgeted revenues exceeded the total budgeted expenditures.

As regards the accumulation of funds in her state budget, China follows the policy of maintaining independence, keeping the initiative in her own hands, relying on her own efforts, struggling hard and building up the country through thrift and hard work. It is also important to obtain foreign aid and make use of foreign funds. China uses foreign loans if the interest is reasonable and the terms are fair. But she follows the principle of borrowing according to her means and pays attention to her ability to repay as well as to absorb the imported technology. All foreign loans borrowed by state financial institu-

tions and to be repaid from the state coffers are included in the state budget so that their repayment is guaranteed.

2. PROGRESS IN STATE BUDGETING AND CHANGES IN THE MAKE-UP OF REVENUE AND EXPENDITURE

With economic development China's revenue collected through the state budget has grown year by year. When China's first state budget was made in 1950 the total revenue was 6.5 billion yuan. In 1976 it reached 77.7 billion yuan, an increase of nearly twelve-fold in 27 years. The total expenditure also increased almost twelve-fold from 6.8 billion yuan in 1950 to 80.6 billion yuan in 1976.

The sources of revenue have also changed greatly. Shortly after Liberation, five sectors of the economy (namely, the state sector, the co-operative sector, the individual sector of peasants and artisans, state capitalism and private capitalism) existed side by side. At that time, the budgeted revenue also came from these five sources. In the state budget of 1950, 30.2 per cent of the total revenue came from capitalist industry and commerce, 34.5 per cent from the individual sector, and 33.7 per cent from the state and co-operative sectors. There were major changes in the economic structure and in the sources of revenue after the socialist transformation of the private ownership of the means of production. In 1976, 84.5 per cent of the total revenue came from the state economic sector, 15 per cent from the collective sector and 0.5 per cent from the individual sector.

In terms of the different branches of the national economy, China's budgeted revenue comes mainly from agriculture, industry, communications and transport and commerce. The amount directly derived from agriculture has declined steadily. It fell from 29.2 per cent in 1950 to 3.7 per cent in 1976. This is because of the policy of keeping the burden of the peasants constant and levying the same amount of taxes in spite of increased production. The declining proportion of the income

from agriculture to the budgeted revenue must not be seen as a sign that agriculture has a negligible influence on the state finance. It must be noted that peasants not only pay direct agricultural tax as part of the state revenue from agriculture but also contribute to the accumulation of the state when they sell farm produce to the state. Since the founding of the People's Republic experience has also proved that the net income from light industry, heavy industry and commercial departments is closely related to agriculture. The harvest, whether it is good or bad, has a great influence on the growth of the revenue.

The bulk of China's budgeted revenue comes directly from industry. Between 1950 and 1976 income from heavy industry rose from 8.4 per cent of the budgetary revenue to 45.1 per cent. This was thanks to the rapid development of the petroleum, chemical and machine-building industries, the continuous rise in productivity and ever lowering costs. Light industry is also crucial to the budgeted revenue. Since light industry requires small investment, gains quick returns and brings about more accumulation, between 1950 and 1976 income from the industry grew from 21.8 per cent to 32.9 per cent.

Contributions from the communications, transport, commercial, food, foreign trade, banking and other departments to the budgetary revenue were also increasing.

The state budget mainly consists of three types of income: (a) The income from enterprises and other bodies, including the profits turned over by the state enterprises and economic organizations, the basic depreciation funds and the income from undertakings. (b) Taxes, including industrial and commercial tax, industrial and commercial income tax and other industrial and commercial taxes (such as driving licence tax on vehicles and boats, urban real estate tax, animal slaughter tax, domestic animal trade tax, and fair trade tax), salt tax, customs duties and agricultural (animal husbandry) tax. (c) Other income, including the income from the payment of stipulated fees, from

finances and the confiscation or recovery of ill-gotten wealth or goods, and miscellaneous income.

The two most important are the income from the enterprises and other bodies and taxation, which derives mainly from the taxes paid and the profits turned over by the state enterprises. During the period of recovery, taxation made up 59.1 per cent of the budgetary revenue, and income from the enterprises about 25.9 per cent. During the Fourth Five-Year Plan period, the former accounted for 44.3 per cent and the latter 54.7 per cent. The general trend is that before the socialist transformation of the private ownership of the means of production, a large proportion of the revenue came from taxation, but afterwards profits and taxation were roughly equal. This is connected with the changes in the country's economic structure.

The expenditure in the state budget is the financial guarantee that the state will be able to carry out its functions. It ensures that the state will fulfil its political and economic tasks in each historical period.

Budgetary expenditure can be divided into spending on economic construction; on culture, education, science and public health; on defence; on administration and management, and so on.

Since 1949, an average of 56 per cent of the budgetary expenditure has been spent on economic construction, and 12 per cent on culture, education, science and public health. These two items make up about 70 per cent of the total expenditure. Their share of the total financial expenditure is increasing. It was 45.2 per cent during the period of recovery, 62.6 per cent in the First Five-Year Plan period, 77 per cent in the Second and Third Five-Year Plan periods, and 67 per cent in the Fourth Five-Year Plan period. But the proportion of the spending on administration and management to the total expenditure is steadily declining. It was 11 per cent in the period of recovery, 7.5 per cent in the First Five-Year Plan period, 5.5 per cent in the Second Five-Year Plan period,

4.8 per cent in the Third Five-Year Plan period and 4.5 per cent in the Fourth Five-Year Plan period. The share of the total expenditure spent on defence also shows a downward trend. It was 37.8 per cent in the period of recovery, 23 per cent in the First Five-Year Plan period, 11.9 per cent in the Second Five-Year Plan period, 21.8 per cent in the Third Five-Year Plan period, and 19.1 per cent in the Fourth Five-Year Plan period.

3. THE IMPLEMENTATION OF THE STATE BUDGETS IN 1977-80

The state budget for 1977 was carried out satisfactorily. The revenue reached 87.45 billion yuan, an increase of 9.79 billion yuan or 12.6 per cent over the previous year and exceeding the budgeted figure by 1.6 per cent. Expenditure totalled 84.35 billion yuan, exceeding the budgeted figure by 2.353 billion yuan. There was a surplus of 3.1 billion yuan. This was something remarkable and unheard-of for many years.

The reason why the state revenue achieved fairly good results was primarily because the national economy quickly returned to normal with the downfall of the "gang of four". In 1976 the total value of industrial and agricultural output rose by a mere 1.7 per cent over the preceding year, and agricultural output actually fell. The national income dropped by 2.7 per cent compared with 1975, and the wealth derived from every 100 yuan of investment was minus 10 yuan. In 1977 there was a 10.7 per cent rise in the total value of industrial and agricultural output over the preceding year. Agriculture increased by 1.7 per cent and industry by 14.3 per cent. The national income was up 7.8 per cent. The increase in production provided the material basis for the growth in revenue.

In 1977 revenue from industrial and agricultural tax totalled 40.09 billion yuan, 13.3 per cent more than the previous

year. The income from state industrial enterprises was 32.814 billion yuan, an increase of 10.8 per cent. Enterprises in industry, communications, commerce and agriculture which had been in the red reduced their deficits by 2.6 billion yuan compared with the year before.

Out of the total expenditure for 1977, 30.088 billion yuan went to capital construction, 3.3 per cent less than in the previous year; 14.378 billion yuan, 24.7 per cent more than the previous year, was spent on developing the potential of existing enterprises and financing their renovation (expenses for renewal or technical transformation of factory buildings, machinery and equipment and other fixed assets), and as circulating funds and expenditure for the trial-manufacture of new products, geological surveys and for undertakings in industry, communications and commerce. Some 5.068 billion yuan, an increase of 10.1 per cent, was spent on financing rural people's communes and other agricultural undertakings; 9.02 billion yuan went to culture, education, science and public health, 5.5 per cent more; expenses for administration and management came to 4.332 billion yuan, 5.6 per cent up on the previous year.

Thanks to increased production and the improved financial situation, the state readjusted wages so that more than 60 per cent of workers and staff had a pay rise.

Because of the rapid recovery in the previous year the national economy made new progress in 1978, and the financial situation was further improved.

The final state accounts for 1978 were as follows: state revenue for the year totalled 112.1 billion yuan and state expenditure 111.1 billion yuan. Revenue exceeded expenditure by 1 billion yuan. Compared with the preceding year, state revenue went up by 28.2 per cent and expenditure by 31.7 per cent.

In 1978, the revenue from industrial and commercial tax amounted to 45.1 billion yuan, up 12.6 per cent over the previous year; the income from state industrial enterprises was

44.3 billion yuan, up 35.1 per cent. Enterprises in industry, communications, commerce and agriculture which had been in the red reduced their deficits by 3.23 billion yuan.

The rise in industrial and agricultural production and state revenue raised the standard of living in both town and country. In the rural areas, the income of commune members from the collective economy was 13.9 per cent higher than the previous year. In town and cities, 40 per cent of the workers and staff were put into higher wage-brackets, another 20 per cent received wage rises in varying degrees, and many earned bonuses. By the end of 1978, as a result of the wage readjustments the country's workers and staff had earned an extra 2.75 billion yuan.

Out of the total expenditure for 1978, capital construction accounted for 39.6 billion yuan. If the reserve funds in local budgets and other stand-by funds that are put into capital construction and disbursements from reserve funds for capital construction are added to this, the overall total was 45.192 billion yuan, an increase of 50.2 per cent over the previous year. Some 16.778 billion yuan, 22.6 per cent more than the year before, was used to develop the potential of existing enterprises, replace their equipment and carry out their technical transformation, to engage in geological surveys and to pay for undertakings in industry, communications and commerce. The financing of rural people's communes and other agricultural undertakings cost 7.695 billion yuan, a rise of 51.8 per cent. Expenditures on culture, education, science and public health totalled 11.266 billion yuan, an increase of 24.9 per cent. Expenses for administration and management came to 4.908 billion yuan, an increase of 13.3 per cent.

Increased financial spending helped to develop production, construction and other enterprises. The following are the major increases in production capacity resulting from capital construction in 1978: 1.12 million tons for steel, 11.51 million tons for coal, 9.996 million tons for crude oil, a power generating capacity of 5.05 million kilowatts, and 806 kilometres of

railway track laid. Agriculture acquired an additional 90,000 large and medium-sized tractors, 280,000 walking tractors and other farm machines with more than 20.23 million horse power. Because of severe droughts, the State Council, to supplement local disbursements, appropriated an additional 1.2 billion yuan for the protection of crops against drought. In culture and education, 402,000 new students were enrolled in colleges and universities, 447,000 in secondary vocational schools and nearly 27 million in middle schools. In public health, 79,000 hospital beds were added. A number of scientific research institutes were restored or newly founded so that progress was also made in the research.

During 1977 and 1978 industrial and agricultural production was restored and developed with considerable success, and the financial situation was also improved. However, mistakes were made in the financial work. The main reason was that "Left" mistakes grew to a certain extent instead of being corrected. Since the state revenue in 1978 went up by 24.7 billion yuan, some people became swollen-headed again, and put forward a number of excessively high and unrealistic slogans and targets. The expenditure on capital construction was increased by 15.1 billion yuan, or 50.2 per cent, at one stroke. This was not only a great deal more than the 12.3 per cent growth rate for the total industrial and agricultural output value and the national income, it also surpassed the growth in state revenue which was 28.2 per cent. As a result, the scale of capital construction was unprecedented and the imbalance between accumulation and expenditure grew worse. In 1976, 30.9 per cent of the national income was accumulated. The figure rose to 32.3 per cent in 1977 and further increased to 36.5 per cent in 1978. Reckless mistakes were also made in the use of foreign investment in 1978. The policy of ending China's seclusion and of utilizing foreign investment and importing technology is obviously correct. But complete plants were imported on much too big a scale; the feasibility of approved projects was not properly investigated. The result

was to make even worse the grave imbalance in the economy that had been created between 1966 and 1976. This made it impossible to keep up the increase in state revenue that had resulted from the recovery of industrial and agricultural production after the fall of the "gang of four".

The Third Plenary Session of the 11th Central Committee of the Communist Party of China held at the end of 1978 marked a great turning point in the history of the Party. The session decided to shift the focus of the work of the whole Party. Afterwards, the Party formulated the policy of readjustment, restructuring, consolidation and improvement of the national economy, stressing readjustment as the key link and calling for the imbalance between the major sectors of the economy to be corrected to achieve an overall balance.

In 1979 and 1980 China's financial work made progress in line with the above-mentioned policy. A series of important measures were adopted to adjust the ratio between accumulation and expenditure, to promote industrial and agricultural production, to improve the people's standard of living, to reform the financial system, and extend the financial power of local governments and enterprises and to encourage initiative from all quarters. However, because of the lack of unanimity on the importance of readjustment the measures taken were generally weak and hesitant. So the principal contradiction — the imbalance in the national economy — sharpened in some respects instead of being resolved. It was highlighted by two successive years of deficits.

The state revenues for 1979 totalled 110.33 billion yuan, with the foreign loans originally not included in the budget reaching 3.53 billion yuan and the domestic revenues amounting to 106.8 billion yuan, or 95.4 per cent of the budget. Revenues from industrial enterprises totalled 49.29 billion yuan, or 88.6 per cent of the budgeted figure; taxes totalled 53.78 billion yuan, or 99.7 per cent of the budgeted figure; other revenues totalled 650 million yuan, or 272.5 per cent over the budgeted figure, while 2.46 billion yuan, or 12 per cent over

the budgeted figure, consisted of depreciation funds handed over to the central financial authorities by the various enterprises.

Expenditures totalled 127.39 billion yuan, including 7.09 billion yuan of foreign loans originally not included in the budget but appropriated for capital construction and other purposes. The remaining 120.3 billion yuan was 7.4 per cent over the budgeted figure. This included 44.38 billion yuan, or 13.8 per cent more, for domestic capital construction; 7.2 billion yuan, or 28.6 per cent more, for developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation and the manufacture of new products on a trial basis; 5.2 billion yuan, or 6.2 per cent more, for additional allocations of circulating funds to enterprises, and of credit funds to banks; 9.01 billion yuan, or 27.8 per cent more, for financing rural people's communes and other agricultural undertakings; 13.21 billion yuan, or 9.4 per cent more, for culture, education, science and public health; and 5.69 billion yuan, or 24.2 per cent more, for expenses for administration and management.

In the final state accounts for 1979, expenditure exceeded revenue by 17.07 billion yuan. To make up the difference, a surplus of 8.04 billion yuan handed over from the past was drawn on and an overdraft of 9.02 billion yuan was taken out from the People's Bank of China.

State revenues for 1980 totalled 108.52 billion yuan, or 2.1 per cent over the budgeted figure. Of this, domestic receipts accounted for 104.22 billion yuan, or 1.3 per cent more than the budgeted figure, and foreign loans came to 4.3 billion yuan, or 26.9 per cent over the budgeted figure. Income from the industrial enterprises, one of the two major sources of domestic receipts, totalled 43.52 billion yuan, or 94.5 per cent of the budgeted figure, and tax receipts, the other source, totalled 57.17 billion yuan, or 5.1 per cent above the budgeted figure.

Expenditures for 1980 totalled 121.27 billion yuan, or 6.1 per cent over the budgeted figure. Of this total, expenditure covered by domestic revenues amounted to 113.97 billion yuan, or 5.5 per cent over the budgeted figure, and appropriations for capital construction out of foreign loans came to 7.3 billion yuan, or 15.4 per cent over the budgeted figure. The following were the main items of domestic expenditure: appropriations for capital construction totalled 34.64 billion yuan, or 11.7 per cent over the budgeted figure; funds for developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation and the manufacture on a trial basis of new products totalled 8.05 billion yuan, or 15.2 per cent over the budgeted figure; additional allocations of circulating funds totalled 3.62 billion yuan, or 98.6 per cent of the budgeted figure; financial aid to rural people's communes and other agricultural undertakings totalled 8.21 billion yuan, or 6.1 per cent over the budgeted figure; funds for culture, education, science and public health totalled 15.63 billion yuan, or 5.4 per cent over the budgeted figure; expenditure on national defence and preparations against war totalled 19.38 billion yuan, or 0.3 per cent above the budgeted figure; and expenses for administration and management totalled 6.44 billion yuan, exceeding the budgeted figure by 15.6 per cent because additional organizations were set up to improve the legal system and tighten market control.

There was a deficit of 12.75 billion yuan for 1980. To make up the deficit, 8 billion yuan was borrowed in bank loans and 4.75 billion yuan was appropriated out of the revenue from state treasury bonds issued in 1981.

The financial targets for 1979 and 1980 were reached at a time when several important economic measures were enforced. Beginning in 1979, the government successfully adopted measures such as raising the purchase prices of farm and sideline products, reducing or remitting taxes in certain rural areas, increasing the wages and salaries of workers and staff

and providing more jobs. The aim was to promote agricultural and industrial production and increase peasants income and improve the living standards of urban workers and staff. They have all had good results and will continue to do so. However, in the beginning, a temporary reduction in state revenue was inevitable. The measures cost a total of over 18 billion yuan in 1979 and over 33 billion yuan in 1980. Mainly because of these measures, state revenues dropped in both 1979 and 1980, even though industrial and agricultural production increased when compared with the previous year.

Expenditures in 1979 and 1980 helped boost industrial and agricultural production. Completed and commissioned were 128 large and 82 medium-sized complex projects, and 340 large and 216 medium-sized simple construction items. The main increases in production capacity were as follows: coal mining, 13.93 million tons in 1979 and over 8.29 million tons in 1980; oil extraction, 8 million tons in 1979 and over 5.75 million tons in 1980; installed generating capacity, 4.65 million kilowatts in 1979 and over 2.87 million kilowatts in 1980; iron ore mining, 4.62 million tons in 1979 and over 2.74 million tons in 1980; railway lines opened to traffic, 875 kilometres in 1979 and more than 277 kilometres in 1980; loading and unloading capacity of harbours, 3.36 million tons in 1979 and more than 5.24 million tons in 1980.

Expenditures in these two years also contributed to the development of culture, education, science and public health. The number of students newly enrolled in institutions of higher learning totalled 275,000 in 1979 and 280,000 in 1980. Some 76,000 hospital beds were added in 1979 and another 50,000 in 1980. Scientific research institutes and personnel were reinforced, and more equipment was made available for them. There were 2,790 successful major scientific research projects in 1979, and more than 2,600 in 1980.

The main reason why there were big deficits in 1979 and 1980 was that the policy of economic readjustment was not understood fully or implemented vigorously. As a result a

balance between accumulation and consumption was not achieved. As consumption rose in urban and rural areas it took up a larger proportion of the national income. But neither scale of capital construction nor the proportion of accumulation to the national income was reduced.

In 1979, additional expenditure for improving people's level of consumption amounted to over 17 billion yuan. This included the subsidies for the increased purchase prices of grain, cotton and cooking oils, the reduction and remission of agricultural tax, wage rises and bonuses and the subsidy to workers and staff to make up for higher prices in non-staple foodstuffs. The sum for 1980 was even bigger. However, capital construction investment in 1979 reached 50 billion yuan, 4.4 per cent more than in 1978. Although the amount invested in capital construction in 1980 was reduced from 39.5 billion yuan to 28.1 billion yuan in the budget, the overall expenditure for capital construction was maintained at the 50-billion-yuan level. This was because of increases in extra-budgetary funds raised by local governments and enterprises for capital construction and in credit for the same purpose. Therefore, the sum total of accumulation and consumption exceeded the national income, and state expenditure on capital construction financial capacity. In addition, many money-losing enterprises which were not capable of meeting market needs were not closed down or had their operations suspended early enough because the leadership adopted a wait-and-see attitude. Expenses for administration and management also increased sharply. All this aggravated the imbalance between revenue and expenditure.

Chinese leaders have taken a serious view of the dangers in the good economic situation: financial deficit, over-issue of banknotes and rising prices. The government decided that beginning in 1981 the policy of readjustment must be carried out in a comprehensive and firm way. Resolute measures were adopted to achieve a basic balance between revenue and expenditure. The main methods used were: reducing capital

construction, cutting back on administrative spending, and matching production, construction, urban facilities and improvement in the people's life with national capacity, and matching expenditure with revenue. All this is aimed at achieving a balance between budgeted revenue and expenditure and between credit receipts and payment, changing from a passive to active position in running the whole of national economy and ensuring that socialist modernization will proceed healthily and steadily.

II. FINANCE AS A LEVER FOR ECONOMIC READJUSTMENT

1. SOCIALIST FINANCE AND THE BALANCE OF THE NATIONAL ECONOMY

The historical experience of China's socialist economic construction proves that the economy determines finance. Only when the economy is rationally balanced can social production proceed smoothly, economic results be improved and ample sources of finance develop. But the way the financial funds are distributed in turn can exert an important influence on the balance of the economy. Therefore, it is an important function of finance to promote rational economic balance through a rational distribution of funds. The state regularly uses finance as a lever in the primary distribution and the re-distribution of the national income in order to adjust some of the principal ratios in the economy. These include the ratio between accumulation and consumption, the ratio between agriculture, light industry and heavy industry, the ratio between productive and non-productive accumulation. Whether these ratios are properly adjusted or not determines the speed and effectiveness of the development of the national economy.

In the latter stage of the First Five-Year Plan period, a Chinese leader in charge of economic work summed up the

experience of developing the economy since the founding of the People's Republic. He stressed the need to proceed from the actual conditions in the country and to find out the limit beyond which economic construction is incommensurate with national resources. It was envisaged at that time that at least 20 per cent or a bit more of the national income should be set aside for accumulation, at least 30 per cent or more for budgeted revenues; and at least 40 per cent or more of the budgeted expenditure should be for capital construction. The ratios during the First Five-Year Plan period in China roughly matched these requirements, so the economy grew faster and better economic results were achieved. In certain years, however, these limits were ignored, which had a harmful effect on the steady growth of the economy.

But, influenced by the "Left" ideology, people did not pay enough attention to the problem of limiting economic construction to national resources. With the exception of the First Five-Year Plan period when the accumulation rate was 24.2 per cent of the national income and the period of readjustment in 1963-65 when it was 22.7 per cent, the rate was 30.7 per cent in the Second Five-Year Plan, 26.3 per cent in the Third Five-Year Plan and 33.5 per cent in the Fourth Five-Year Plan. Even after the downfall of the "gang of four", the rate was still as high as 32.3 per cent in 1977 and 36.5 per cent in 1978. The share appropriated for capital construction in the state expenditure was 37 per cent in the First Five-Year Plan period, 46.2 per cent in the Second Five-Year Plan period, 30.1 per cent in the years 1963-65, 38.7 per cent in the Third Five-Year Plan period, and 40.2 per cent in the Fourth Five-Year Plan period. After the 1960s, the fund for developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation was separated from the budgetary appropriations for capital construction. If the two items were added together, they would make up 54.4 per cent of the total state expenditure in 1970, the last year of the Third Five-Year Plan period, and 51.6

per cent in 1975, the last year of the Fourth Five-Year Plan period.

The growth rate of the national economy was low and economic results were poor during the Second, Third and Fourth Five-Year Plan periods when accumulation took a big share of the national income and appropriations for capital construction figured prominently in the total expenditure. The average annual growth rate of the total industrial and agricultural output value was 21.1 per cent in the period of recovery, 10.9 per cent in the First Five-Year Plan period, 0.6 per cent in the Second Five-Year Plan period, 15.7 per cent in the years 1963-65, 9.6 per cent in the Third Five-Year Plan period, and 7.8 per cent in the Fourth Five-Year Plan period. The amount added to the national income from every 100 yuan of accumulation averaged 35 yuan a year in the First Five-Year Plan period, 1 yuan in the Second Five-Year period, 57 yuan in the years 1963-65, 26 yuan in the Third Five-Year Plan period, and 15 yuan in the Fourth Five-Year Plan period.

A high rate of accumulation and large-scale capital construction cannot bring about sustained fast growth and good economic results. From the macroeconomic point of view, one reason is the backward economy of the country. The per-capita national income is low in China. A high rate of accumulation has to reduce consumption and lower the living standards of the people, thus dampening their enthusiasm. Another cause is the excessive scale of capital construction which is neither feasible nor well planned. There is a shortage of funds and materials. Consequently, capital construction can only be carried out intermittently, and the results cannot be satisfactory. The high rate of accumulation in China results from absorbing an excess amount of the national income through financial channels for capital construction. To alter this, it is necessary to resort to regulation, using finance as a lever. The excess amount of the national income absorbed through financial channels has to be transferred in the primary distribution to the workers and peasants through such

levers as wages and prices. Moreover, capital construction must be curtailed so that it is in keeping with China's financial and material resources.

As regards the ratio among the sectors of the national economy, Chinese leaders, in summing up the experience of the First Five-Year Plan, said that only when there is a greater development of agriculture and light industry can heavy industry gain more and faster growth in the long run. History has shown this to be true. The wealth produced by every 100 yuan's worth of fixed assets in the enterprises owned by the whole people averaged 266 yuan in the textile and other light industries in each of the four years 1975-78, and 72 yuan in heavy industry, the former being 3.7 times the latter. For the same period, the taxes and profits derived from every 100 yuan's worth of fixed assets averaged 61 yuan in the textile and other light industries and 16 yuan in heavy industry, the former being 3.8 times the latter. Therefore, to accelerate the development of the textile and other light industries is very beneficial to the accumulation of construction funds. However, the late 1950s saw the practice of deviating from the policy of coordinating the development of light and heavy industries. The result was the lop-sided development of heavy industry and especially the excessive expansion of the iron and steel industry. In the three years 1958-60, heavy industry accounted for 89 per cent of the total industrial investment. But the state revenue barely increased (in the First Five-Year Plan period, every 100 yuan of appropriations for capital construction added 25 yuan to the state revenue). After 1965, in order to be prepared against war, large sums were invested in the construction of the rear area in remote regions, again giving prominence to heavy industry. From 1966 to 1975 capital construction investment in heavy industry amounted to 90.4 per cent of the total industrial investment. But every 100 yuan of investment in capital construction yielded only 19 yuan in tax and profit from 1966 to 1970 and only 10 yuan from 1971 to 1975. This shows that an irrational investment

structure will lead to a lop-sided economic structure and poor economic results. To alter this, it is necessary to change the way funds are distributed.

We frequently refer to the ratio between the material production department and the non-material production department as the relationship between the "bone" and the "flesh". These two departments are dependent on each other. But for a considerable time, many people took a one-sided view of the non-material production department, regarding its non-productiveness as something unrelated to production and dispensable. So it received little attention and was allocated very inadequate investment. For instance, in the First Five-Year Plan period the non-productive sector and housing, part of the sector, made up 28.3 per cent and 9.1 per cent of the total investment respectively. In the Second Five-Year Plan period the figures were 13.2 per cent and 4.1 per cent respectively. They were 17 per cent and 6.9 per cent in the years 1963-65; 10.6 per cent and 4 per cent in the Third Five-Year Plan period; and 13.4 per cent and 5.7 per cent in the Fourth Five-Year Plan period. It is obvious that investment in the non-productive sector and in housing was drastically cut after the First Five-Year Plan period. This inevitably hampered the development of science, education, culture and public health and affected people's lives. To alter this situation, it is necessary to increase the share of the state budget spent in this field.

2. FINANCE PLAYS A SIGNIFICANT ROLE IN READJUSTING THE RATIOS IN THE NATIONAL ECONOMY

Since the Party Central Committee and the State Council put forth the policy of readjustment, restructuring, consolidation and improvement, the financial departments have done much to readjust the ratio between accumulation and consumption and between the major sectors of the economy

and to develop energy, communications and transport and the building industry.

In readjusting the ratio between accumulation and consumption, the consumption level of the workers and peasants has been raised through various means.

In 1979, the purchase prices of farm and sideline products were raised substantially and agricultural tax in low-yielding areas was reduced or remitted. This helped the recovery of rural areas. Beginning from the summer harvest of 1979, the state raised the purchase prices of 18 major farm and sideline products, including grain, cotton, cooking oil, hemp, sugar cane, beet, pigs, cattle, sheep, fish, eggs and silk cocoons. Higher prices were paid for grain, cotton and cooking oils sold over and above the state quota. The state subsidy for such purposes amounted to 9.6 billion yuan that year. And the sum rose to 14.7 billion yuan in 1980, 5.1 billion yuan more than in the previous year.

For low-yielding, grain-deficient areas, the state set a level below which agricultural tax was to be remitted. As a result, agricultural tax was reduced by 2.35 million tons of grain in 1979. Moreover, the minimum level at which enterprises run by communes, production brigades and production teams had to pay industrial and commercial income tax was appropriately raised; the time limit for the reduction or remission of taxes to be paid by newly established enterprises in the same category was appropriately extended; and it was stipulated that such enterprises in national minority autonomous counties (or banners) and border counties should be exempted from industrial and commercial income tax for a period of five years. Therefore in 1979 a total of 2.2 billion yuan of taxes was not collected. The figure for 1980 was 2.9 billion yuan.

Thanks to the expansion of agricultural production and the rise in the price paid by the state for farm and sideline products, the peasants' per-capita income from the collective

economy averaged 83.4 yuan in 1979, an increase of 9.44 yuan over the previous year. The figure in 1980 was 85.9 yuan.

In 1979, jobs were provided through various channels for 9.21 million more people in cities and towns, including students who graduated during the year from colleges and secondary vocational schools and were given jobs under an overall state plan. Altogether 40 per cent of workers and staff got pay rises, and wage scales were readjusted in certain areas. A system of rewards was introduced in all state enterprises, and a monthly subsidy to offset price increases in non-staple foodstuffs was given to all workers and staff. The average annual per-capita wage of workers and staff in all state-run enterprises and establishments rose to 705 yuan, an increase of 61 yuan over 1978. State expenditure on all these items totalled 7.5 billion yuan in 1979. In 1980, jobs were provided for 9 million more people, and the average annual per-capita wage of workers and staff in all state-run units reached 803 yuan, or 98 yuan more than in 1979. State expenditure in this field came to 14 billion yuan, an increase of 6.5 billion yuan over 1979.

In changing the accumulation in the productive and non-productive sectors, one of the things finance has done is to allocate special funds out of capital construction investment and combine them with the financial resources of local governments and enterprises to build housing for workers and staff. At the end of 1979, a total floor space of 62.56 million square metres was completed in cities, towns, industrial and mining areas, a 67 per cent increase over 1978. The figure at the end of 1980 was more than 82.3 million square metres. These two years saw the largest-scale housing construction since the founding of the People's Republic.

Another important measure is to increase the financial powers and reserve funds of local authorities and enterprises. This helps reinvigorate the national economy, promote production and increase revenue, and correct the serious imbalance between the "bone" and the "flesh". In 1979, the state spec-

ified that the authorities of 49 big and medium-sized cities could set aside 5 per cent of their industrial and commercial profits for urban construction, and that all other local authorities could draw a certain portion of the income from county-run industrial enterprises. As a result, the reserve funds of the local authorities were increased by 2 billion yuan. Meanwhile, a system was introduced whereby all state enterprises may set up enterprise funds, and the policy of allowing the enterprise to keep a proportion of its profits was tried out in over 4,000 industrial enterprises and in commercial enterprises. As a result, these enterprises obtained 4 billion yuan as reserve funds. The two types of reserve funds reached a total of more than 6 billion yuan. They continued to increase in 1980.

In readjusting the ratio between agriculture, light industry and heavy industry, the state financial departments have increased substantially the funds devoted to developing agriculture and light industry. This has promoted the coordinated development of all three.

In addition, during these two years the state financial departments supported the development of the energy industry, communications and transport in selected areas.

3 THE IMPORTANCE OF THE CONSTRUCTION BANK IN REDUCING THE SCOPE OF CAPITAL CONSTRUCTION AND MAKING RATIONAL USE OF FUNDS

In order to readjust the national economy it is vitally important to reduce the scope of capital construction and tighten the financial controls over it. To this end the state makes full use of the People's Construction Bank of China as an economic lever. The Construction Bank is a bank of long-term investments which the State Council has placed under the control of the Ministry of Finance and the State Capital Construction Commission. It exercises overall control over the appropriations and loans for capital construction invest-

ments in the country. Since the readjustment started, the bank has done much in the following areas:

(1) Cutting down on capital construction investments while protecting key projects and examining other projects under construction.

Since the adoption in June 1979 of the policy of readjusting, restructuring, consolidating and improving the national economy, the Construction Bank has readjusted investment and cut down the scale of capital construction in co-operation with the departments involved.

First of all, capital investments have been placed in the following order of priority: agriculture, light industry and heavy industry. Every possible effort has been made to promote the development of light industry (including the textile industry) and the fuel, power and transport industries which are falling short of the needs. As to those projects which must be put into production before a certain date under the plan, assistance has been given to the departments involved in using the investments so that the funds will be supplied as scheduled and the projects will be ready for operation in the shortest possible time.

Moreover, efforts have been made to find out which projects must be stopped or postponed. After careful examination, the bank has firmly urged the stoppage or postponement of a number of projects because their geological conditions and resources are not clear, their technical processes are not yet up to standard, their sources of raw materials, fuel and power are not yet available, their products are unmarketable, the pollution problems are not yet solved or their operation cannot be normal after completion. Such projects are not limited to the big and medium-sized ones, but also include small projects, projects whose funds have been raised by the departments involved and projects which have been undertaken by the bank to develop the potential of existing enterprises, replace their equipment and carry out their technical transformation.

Furthermore, through examining the appropriation for capital construction, the bank has begun to curtail the duplication of construction projects. Such duplication has increased as a result of restructuring the economy and extending the decision-making power of the local authorities and enterprises. For example, a number of enterprises have built their own forging, casting, electroplating, heat-treatment, machine repair and oxygen shops in order to make themselves completely self-sufficient. Disregarding the sources of raw materials or co-operation between departments and local governments, a number of localities have built their own fertilizer, motor vehicle, tractor, bicycle, sewing machine, camera and integrated circuits plants. Commercial and foreign trade departments have also built their own refrigerating warehouses. The communication departments have built their own ship repair yards and motor repair plants. The building departments all have their own factories making steel window frames and prefabricated parts and concrete mixing stations. Quite a few units have set up their own clubs, guest houses, hospitals and kindergartens. The duplication of construction projects described above has wasted state financial and material resources. The Construction Bank which has been given the power by the state to supervise and check the use of capital construction funds, has been able to refuse to make allocations for duplicated projects after going through the necessary procedure for approval.

(2) Strengthening the supervision over the allocations for capital construction.

After the founding of the People's Republic of China, a system of supervising the allocations for capital construction was established. However, this system was disrupted during the "great leap forward", and was totally abandoned during the ten years of internal disorder.

In order to control capital construction in the course of economic readjustment, the Ministry of Finance, the State Planning Commission and the State Capital Construction Com-

mission jointly issued the Tentative Regulations for Capital Construction Allocations in November 1979 to strengthen the supervision over the allocations of funds.

Under the regulations, all funds for capital construction, including the allocations in the state budget and the funds raised by local governments, various departments and enterprises themselves, shall be supervised by and appropriated through the People's Construction Bank of China.

All departments, units undertaking projects and construction enterprises are required to establish or improve their business accounting and make sure that their estimates are made at the design stage, that budgets are drawn up before construction starts, that capital expenditure is audited, and that the final costs of projects are calculated. Appropriations must only be made in accordance with the procedures for capital construction, the state capital construction programme, the state budget, and the progress of the project.

The regulations state that when the State Planning Commission, the State Capital Construction Commission and the ministry concerned examine the construction plan and the preliminary designs, the Construction Bank should be present. After a thorough investigation and with the approval of the higher authorities, the bank can refuse to make allocations for projects which it has urged the units involved to stop or postpone.

The regulations stress that all units undertaking construction projects and construction enterprises must strictly carry out the state plan and observe the financial system. The following things are forbidden: the construction of office buildings, large halls and guest houses without permission; the seizure of, damage to, and the waste of state financial and material resources; the use of appropriations within the budget for projects it has not covered; the transfer of funds by drawing investments and paying loans in advance; and fraud and deception in making capital construction allocations.

The regulations provide for awards and penalties for units undertaking projects and for construction enterprises. Units undertaking projects that meet the state plan's requirements on date, quantity and quality and that reduce the investments can in accordance with the regulations retain part of the funds saved as their own enterprise funds. The construction enterprises that realize the state plan targets can in accordance with the regulations draw part of their profits as enterprise funds. Leaders of any enterprise which violates the state financial discipline and causes great losses to the state receive no bonus for twelve months.

(3) Granting capital construction loans on a trial basis.

In order to make better use of bank loans as an economic lever, establish the system of economic responsibility in capital construction, practise business accounting, improve the effectiveness of investment and gradually end profligate capital construction, the state is preparing for a general switch from appropriations to loans for all enterprises in industry, communications, land reclamation, stock breeding, aquatic production, trade and tourism that practise independent accounting and are able to repay loans. After bank loans replaced appropriations as the source of capital construction investment, economic methods and organizations have played a more important role. Both the bank and the units borrowing money are economic organizations, and their dealings are regulated by contracts: both sides bear economic and legal responsibilities. As the borrowers have to repay both the principal and the interest on the loans on time, they have to think over whether the construction of a new project is necessary, and to be careful about the amount spent and construction is speeded up so that more returns can be obtained from the investment. Moreover, the bank examines stringently the applications for loans and only grants credits to those which are qualified according to the principle of giving priority to the best. In this way, restrictions are placed on the units which ask for new

projects, investments, raw materials and equipment without good reasons and build recklessly.

With bank loans replacing government appropriations, the returns from investment are closely linked with the economic interests of the enterprises and their workers and staff. Therefore, the change will produce anticipated results only when the decision-making power of the enterprises is increased and when it is supplemented by the reform of the systems of finance, supplies, price, taxation, labour and wages. Moreover, very few projects are started and completed in the same year and most projects take three to five years to complete. Therefore, the practice of issuing bank loans for capital construction calls for a relatively stable long-term or medium-term capital construction programme which serves as the basis for arranging construction projects by various local governments, various departments and enterprises and for issuing bank loans. To meet the need to build small projects which require small investment, produce quick results, make urgently needed products and have the right conditions, the state has set aside a reserve from the total capital construction fund for the Construction Bank to issue flexible loans to such projects as a supplement to the state plan.

The replacement of government appropriations by bank loans was first started in 1979 and 1980 in the textile and other light industries, and in tourism in Beijing, Shanghai and Guangdong Province. A number of projects which would require small investment, produce quick results, make good profits and have better conditions for construction were chosen for the switch. The method was also tried out in the purchase of rolling-stock, ships and other items by the railway, transport and tourism departments. The Trial Regulations on Loans for Capital Construction were promulgated at this time.

Under the regulations, the borrower must be an independent economic organization which takes economic responsibility. Existing enterprises are responsible for applying for loans and paying the principal and interest for reconstruction

and expansion projects while the organizations in charge of preparations and future production should apply for loans for new enterprises and repay the principal and interest. Where specialized or regional corporations have been set up they are responsible for borrowing and repaying loans with interest.

The regulations stipulate that loans are issued only when the construction plans and preliminary designs for new projects have been examined and found to fulfil following conditions: (a) the products are marketable and the technological processes are up to standard; (b) the resources, raw materials, fuel, power and water supply and means of transport are all available; (c) the calculations of returns on the investment are accurate and reliable and the loans can be repaid on time with interest; and (d) arrangements have been made regarding the land, equipment, building materials and labour force.

The time limit for loans is 15 years for heavy industrial enterprises, 10 years for other enterprises and five years for ordinary projects.

The annual interest rate is generally 3 per cent and different rates are fixed for different industries. The interest is doubled for overdue payment and for the part converted for other use.

The regulations stipulate that during the period covered by the contracts new enterprises can keep all the profit after paying the basic fixed asset depreciation funds, fixed asset taxes and combined industrial and commercial taxes and can use it for paying the principal and interest.

The stipulation also applies to the reconstruction and expansion projects of existing enterprises if the economic results can be calculated after they are in operation. In the case of rebuilding or expansion projects whose economic benefits cannot be separately accounted, then apart from the basic depreciation funds and the tax that the enterprise is allowed to retain for its new fixed assets derived from the loan, a proportion of the total profits of the enterprise equivalent to the proportion of the new fixed assets in its total fixed

assets is retained by the enterprise to pay off the principal and the interest.

During the loan repayment period the combined industrial and commercial tax can be reduced or remitted for those enterprises whose products incur high taxes and make little profit and which have difficulty in repaying the loan from the funds described in the preceding paragraphs. But this is subject to a higher authority's approval.

Under the regulations, if any project is completed and put into operation on time or ahead of schedule and the loan plus interest is returned ahead of schedule, all loan repayment funds can be used for developing production and improving welfare services during the loan repayment period covered by the contract. If the loan cannot be repaid on time, the enterprise undertaking the project has to repay it from the fund set aside for renewing its equipment and carrying out its technical transformation and from the enterprise fund; the loan must not be repaid by including it in the production costs, or reimbursed by retaining the profit which should be handed over to the state.

The loan funds of the head office of the Construction Bank are allocated by the central government from the capital construction appropriations budgeted for the fiscal year. For the provinces, municipalities and autonomous regions, the loans come from the locally raised capital construction funds. The recovered loans are delivered by the head office and branches of the bank to the financial departments at the corresponding levels as part of their revenue for the fiscal year in accordance with the principle of returning the loan to whoever has supplied the loan funds.

The replacement of government allocations by bank loans was tried out for a limited number of projects in Shanghai and in the provinces of Jilin and Henan in 1979. In the second half of 1980 it was extended to more than 1,500 enterprises in more than 20 industries in all provinces of the country. The total amount of loans exceeded 3.6 billion yuan. Bank

loans instead of state appropriations are now supplied to all big and medium-sized thermal power projects under the Ministry of Power. About one third of the capital investments covered by the state budget in Shanghai and the provinces of Hubei, Fujian and Yunnan has been provided by bank loans.

The experiment has shown the following advantages:

(a) The unreasonable demands for new projects, investments, raw materials and equipment have given way to a serious calculation of economic results. In May 1980, the Beijing Plate Shearing Mill was supplied with a flat bottom truck with a capacity of 40 tons costing 160,000 yuan. After checking the plan, the mill found that the truck would not be needed for two years and it would have to pay an interest of nearly 10,000 yuan if the truck was bought. So it decided to return the truck and wait for another two years.

(b) False reports have given way to telling the truth. A textile machinery plant had first applied for an investment of 750,000 yuan for the construction of a new workshop. After the new practice was introduced, the plant asked the Construction Bank to rearrange a loan on the basis of its actual need.

(c) There has been a change from the construction of all-embracing enterprises to co-operation among enterprises for special lines of work.

(d) Instead of making unreasonable demands to construct new projects, existing enterprises are giving first priority to developing their potentials. The Qinghe Chemical Plant in Shandong Province had first asked for a state investment of 4 million yuan to build a new shop with an annual capacity of 6 million tape cassettes, but it was not at all sure if it could turn out high quality cassettes or if the cassettes would be marketable. After the new practice was introduced, the management, after reconsideration, decided to make use of the existing conditions in the plant to set up a shop with an annual capacity of 1.5 million cassettes and plan to expand it

after a good market has been found. As a result, the bank loan was cut by 1.3 million yuan.

(e) Reckless spending has changed to careful spending. After loans were introduced, many enterprises were able to resist such undesirable practices as unjustified financial levies. The Datong No. 2 Power Plant had once had 3 million yuan of its funds taken out by higher authorities for other uses, because it could be reimbursed from the state revenue. After bank loans replaced state appropriations, things became different. When the Shentou Power Plant borrowed a loan of 30 million yuan, the higher authorities wanted to take away 2 million yuan as expenses for preparatory work. As the demand was unreasonable and the bank would double the interest, the power plant refused the demand.

(f) Enterprises would rather use their own money first than spend as much government money as they can get. In the past as all capital construction funds were allocated gratis by the government, any surplus at the end of the year would be taken back by the government. As a result, many units would either spend the government money before their own, or rush to spend the surplus towards the end of the year. This kind of tendency has been greatly changed.

The changes described above show that when loans from the Construction Bank replace government appropriations for capital construction investments, there is an organic combination of economic responsibility, economic power and economic results which serves to control the funds, and the returns on investments are closely linked with the economic interests of the enterprises, thus giving full play to the initiative of all sides involved with improved economic results.

(4) Experimenting with the Construction Bank taking overall control of capital construction projects and projects for developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation.

Capital construction in China has been overextended. This is partly because there was no control over the ever increasing funds for developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation. The problem was not serious during the First Five-Year Plan period, because over 90 per cent of the fixed assets purchased was arranged through the capital construction programme and the Construction Bank could know the size of a project and the scope of capital construction. However, with the system of financial management changed considerably in the last two decades, new sources of funds for the production of fixed assets were opened up. For example, capital construction projects were dealt with by the State Planning Commission, while projects for developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation were dealt with by the State Economic Commission. The urban construction and pollution control projects were dealt with by the State Capital Construction Commission and measures for scientific and technological developments were dealt with by the State Scientific and Technological Commission. And the office in charge of imports and exports dealt with foreign loans. None could give a comprehensive picture of the fixed assets, thus resulting in duplicated projects and waste.

Since 1979, a total of 5.2 billion yuan for the production of fixed assets has been used in capital construction, in developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation and in urban construction and environmental protection in Shanghai. Of this 4.2 billion yuan has been controlled by the Construction Bank.

The advantages of this practice are:

(a) The Construction Bank has played the role of chief accountant to the state in controlling the production of fixed assets. It can facilitate the rational use of funds for various purposes. Therefore it helps control capital construction.

(b) It helps the enforcement of the prescribed procedure for capital construction. The seven industrial bureaus in Shanghai have planned 181 development projects and more than half of them involve a large amount of construction work. Each project covers on the average a building space of 1,700 square metres. Besides controlling the funds, the bank has stressed planned construction and following the prescribed procedures for allocations. This has helped reduce the funds needed. In the past, all allocations for developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation were pre-determined and taken from the state treasury and deposited in the bank account of the enterprises. Now all funds are controlled by the Construction Bank and appropriations never exceed what is immediately needed. The unused funds are still kept in the treasury, thus reducing state expenditure in the fiscal year. Moreover, when the funds for the development of existing enterprises are allocated according to a plan and the progress of work, it helps prevent waste.

(c) It helps rationalize funds for capital construction and for developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation. In the past, the amount of funds in the second category was too big to be used up by the end of each year. For example, they reached 387 million yuan in 1978 to finance 1,298 projects in Shanghai. But as only 428 of them were completed, a mere 53 per cent of the funds was used. The reason for this was the shortage of building materials and labour force. A change took place in 1979. The Municipal Bureau of Supplies guaranteed the supply of building materials and arrangements were also made to provide the labour force for all the approved projects. This ensured that the construction of the projects were on schedule and the economic returns on the investment were increased.

III. RESTRUCTURING OF THE FINANCIAL SYSTEM

The restructuring of the financial system, dealt with here, involves the system of state budget control and the system of financial management in the state-owned enterprises.

1. THE RESTRUCTURING OF THE SYSTEM OF STATE BUDGET CONTROL

(1) Changes in the budget control system since 1949.

The state budget in China consists of a central budget and local budgets. The budgets at the different levels reflect the collection and distribution of revenue by the governments at different levels. The system of budget control defines the scope of their financial activities and their functions and power in handling financial matters. It is an important part of the Chinese economic system and deals with the distribution of revenue between the central government and the local governments. If this problem is handled well, it can give power and vigour to the whole national economy through the planned and rational distribution of the state revenue.

In accordance with the principle of democratic centralism, China's system of budget control operates through "overall leadership and management at different levels". Overall leadership means centralized financial principles and policies, centralized financial planning and a centralized financial system throughout the country. Management at different levels means decentralization of some functions and powers to local governments so that they can deal with financial matters on their own initiative according to the established principles, policies, plans and systems and local conditions.

Over the last thirty years the extent to which China's financial power is centralized or decentralized has varied according to the changing political and economic situation, the reform of the economic system and the lessons learnt from

experience of the new budgetary systems introduced in different periods.

The changes in the system of budget control have shown that it is necessary to handle correctly the problem of financial centralization and decentralization in accordance with the actual conditions in China. China is a socialist country, but it is a big and poor country. The socialist nature of the state makes it necessary to provide planned leadership over the national economy, rationally adjust various proportions and the geographical distribution of industry and organize the overall balance of financial and material resources through the powerful leverage of centralized finances. China's per-capita national income was 104 yuan in 1952 and rose to 372 yuan in 1980, a 3.6-fold increase in 28 years. However, the country is still under the world poverty line. This calls for a proper centralization of the financial resources in order to speed up economic growth, ensure key projects and concentrate efforts on solving strategical problems. But China is a multi-national country with a vast territory, a big population, complicated conditions, and uneven economic and cultural development. This has made it imperative to emphasize both central and local initiative and avoid overcentralization and rigid control. If local authorities have to ask for money from the central government in every trifling matter, it will prevent them from solving their problems properly in the light of local conditions and meeting the urgent needs of the people quickly. Moreover, it will encourage bureaucracy and dampen the enthusiasm and initiative of local authorities. Therefore, it is necessary to give some decision-making powers to local governments under the overall leadership of the central government. The problem is to find a reasonable division between centralization and decentralization. Prior to 1977, power was highly centralized in China's system of budget control on two occasions. In 1950, there was financial centralization to prevent inflation and to improve the general financial and economic situation. In 1962, financial authority

was again centralized to readjust and revive the national economy. The centralization produced satisfactory results on both occasions. However, after the economic situation improved, the defects of overcentralization became apparent and the problem of how to decentralize financial power was put on the agenda. Before 1977 there were two occasions when the financial authority of the state was largely decentralized. This took place first in 1958 in line with the reform of the industrial and commercial systems and again in 1970 when large numbers of industrial enterprises were placed under the control of local authorities. The first decentralization lasted for one year and the second two years. The problem lay in the failure to deal properly with the relation between local initiative and the overall national balance. The purpose of the current reform of system of budget control is to find a proper solution to the contradiction between centralization and decentralization on the basis of summing up historical experiences.

Practical experience has shown that the main factors for determining the degree of centralization and decentralization are the extent to which financial power is decentralized and the proportion of state revenue allocated to local governments and their power to control these funds.

In China, financial and political powers are interconnected. Each level of government should have the appropriate financial power. Under the first Constitution promulgated in 1954, political power in China was divided into four levels — central, provincial, county and *Xiang*, and each level of government had the power to examine and approve budgets and final accounts. However, because the conditions were not suitable it was not possible for each level of government to have its own budget. For example, before 1954, there were budgets only at three levels — the central government, great areas and provinces. County or municipal revenues and expenditures were all included in the provincial budgets. After 1954, only the central, provincial and county governments had

their own budgets. A big turning point took place in 1958 when some financial power was decentralized to the people's communes. However, to overcome the economic difficulties resulting from the "great leap forward", financial power was again centralized at three levels — the central government, great areas and provinces, and the power of the county governments and below was restricted. In 1964 financial power was again shared by the central, provincial and county governments.

In China, the decentralization of financial power is also related to control over the state-owned enterprises and undertakings, which, as determined by the socialist system in China, are the major sectors of the national economy. The authority which controls the enterprises and undertakings also controls financial power. In other words, the revenues and expenditures of the enterprises and undertakings are included in the budgets of the governments which control them. If the enterprises and undertakings are controlled mainly by the central government, the latter has more financial power. If the enterprises and undertakings are transferred to the lower levels, the financial power of the central government decreases while the local governments have more say in their financial activities. The extension of local financial power in 1958 and 1971 was closely related to the measure to place the enterprises and undertakings under the control of local authorities. The extension of some financial power in 1958 to the communes followed their control over the funds and personnel of the financial and trade departments (the supply and marketing co-operatives and the credit co-operatives). The financial power of the governments at different levels is determined not only by how much tax they collect and control, but also by how many enterprises and undertakings they control. This is different from Western countries where all or most of the enterprises are privately owned. Precisely because financial power is closely related to control over enterprises and undertakings, close attention must be paid to the number and scale

of enterprises and undertakings a particular government controls in order to know how much financial power it has. A provincial government today has much more financial power than it had during the 1950s or even during the 1960s. This is largely because most of the enterprises formerly under the central government are now under local government control.

Of course, how much power a local government can exercise over taxation affects local finance. The items, categories and rates of taxation in China are decided by the central government, but the level of government which controls revenues and has the power to reduce or exempt taxes has varied from period to period. In 1950 when power was highly centralized, all taxation was controlled by the central government and it also monopolized the power to reduce and exempt taxes. Afterwards, five kinds of local taxes, namely, animal slaughter tax, urban real estate tax, driving licence tax on vehicles and boats, a fair trade tax and domestic animal trade tax, were collected by the local governments as part of their fixed income. In line with this, the power to reduce or exempt these taxes was also decentralized. In addition to the normal taxes, there were also an agricultural surtax, an industrial and commercial surtax and an urban public utility surtax. These surtaxes were collected by the local governments as extra-budgetary revenues and used for expanding farmland and water conservancy facilities and for urban public utilities. At first, the ratio of these surtaxes to the normal taxes was fixed by the central government. In 1958 when financial control was decentralized, the amount of industrial and commercial surtax was still fixed by the central government, but agricultural surtax and urban public utility surtax were fixed by the local governments themselves. This change also reflected the change in financial power.

How much financial power each level of government has is manifested not only in the division of revenue, but also in the power to control expenditure. In China, people often talk of the "relationship between the vertical and the horizontal

lines of division" or the "contradiction between the vertical and the horizontal lines of division". The "vertical lines" mean the management system from top to bottom under the central ministries, while the "horizontal lines" refer to a province, a city or a county. Local government expenditure is devoted to developing the local economy, culture, education, public health, science and civil affairs. These expenditures are dealt with in two ways. One way is for the ministries of the central government to set the expenditure quotas and pass them down vertically to the local departments according to the plan. The local governments have no power to make readjustments between different expenditures. The popular saying is: "Money set aside for soy sauce cannot be used to buy vinegar". The other way is to set an overall quota for all expenditures of local governments which have freedom to manoeuvre, taking into consideration specific local conditions. The former arrangement gives less financial power to local governments while the latter gives more. This is another indication of financial centralization or decentralization.

Apart from what is described above, there is also the question of the relationship between revenue and expenditure.

The relationship between revenue and expenditure covers the following aspects: whether the boundaries of central and local government revenue and expenditure have been clearly defined and whether there are definite quotas for them; whether revenue and expenditure are separate or interconnected; and whether revenue is determined by expenditure or vice versa.

A clear division of the revenue and expenditure boundaries between the central and local governments is the prerequisite for defining their functions and powers. Drawing the proper division between the central and local governments' revenues and expenditures and setting definite quotas for local authorities helps stabilize the budget of the central government and gives play to the initiative of local governments. If the division is vague — setting no limit to the outlays a local govern-

ment may make and leaving the central government to pick up the deficits — the initiative of both the central and local governments is hurt.

Whether revenue and expenditure are separate or interconnected has a considerable impact on the financial power of all levels of government. The separation between revenue and expenditure means that all revenues of the local governments are delivered to the central government, while all local government expenditures are covered by the central government. There is no relationship between revenue and expenditure. This is what is usually called total control over revenue and expenditure or the supply system. This practice means that financial power is highly centralized. It was adopted between the central government and the local governments in 1950 when financial and economic work was centralized. It is now also adopted to a certain extent between the provinces and the counties under them. On the other hand, the interconnecting of revenue and expenditure means that a certain proportion of local revenue corresponding to local expenditure is left in local government hands after the local budgeted expenditure for the fiscal year is approved and its ratio to the total local revenue is worked out. After the ratio is fixed, if the local revenue grows fast, the local government will retain the whole of the revenue above the quota or part of it at a fixed ratio and use the money as it pleases. By adopting this practice, the contributions made by the local government are linked to its material interests. The larger the local revenue is, the more the local government can get to increase its reserve funds. This helps give full play to the initiative of the local government.

In linking revenue with expenditure, there is also a question of whether revenue is determined by expenditure or vice versa. The question hinges on whether the proportions of local revenue shared by the central and local governments will remain unchanged for one or more years. If the proportions remain unchanged for one year, it means that the proportions

will change every year and that revenue is determined by expenditure. This is not conducive to long-term development plans for local enterprises and undertakings and encourages local governments to vie with each other for larger quotas and more new construction projects when refixing the proportions. If the proportions remain unchanged for several years, that part of the local revenue retained by the local government in the first year is determined by local expenditure and it will be able to calculate in advance what it can get in the coming year and plan its expenditure accordingly. Therefore, with the exception of the first year, the local government can decide its expenditure on the basis of its own revenue. This practice is welcomed in all economically developed parts of the country because they have more enterprises and their revenues grow faster. This enables them to obtain more reserve funds every year for expanding local undertakings, and to plan more undertakings over a longer period of time.

Whether the local governments can keep their end-of-the-year surpluses for the next year is also a key question in expanding their financial power. In the early 1950s when financial power was highly centralized, local surpluses were used to cover local expenditure in the coming year. Under a system adopted in 1954, the budgeted expenditures should be covered by the local government and "the surplus reserve funds can be kept by the local government". But in fact the local government was not allowed to keep its surpluses for use in the coming year until 1958 when local financial power was extended. It was reaffirmed then that surplus local revenue should be left to the local government for use in the coming year. After 1962, many restrictions were imposed on the power to keep the surpluses until 1971 when local financial power was again expanded. Leaving the surplus in local governments' hands provided the incentive for them to increase their revenue and reduce expenditure and avoided the reckless spending of money towards the end of every year. However, the financial situation varied from locality to locality.

Some provinces had surpluses and retained them, and others had deficits and required subsidies from the central government. This caused difficulties for the central government in its effort to balance its revenue and expenditure.

To sum up, the changes in the system of budget control before 1977 consisted of constant readjustments in the relations between centralization and decentralization under the general principle of "overall leadership and management at different levels". Increasing local financial power is not merely a question of giving more reserve funds to the local government, but a question of finding the best method of distributing the revenue to aid the balance of the state budget and give room for local initiative. Before 1977, the general trend was to greatly increase local financial power. This was shown in the following figures: in 1957, the last year of the First Five-Year Plan period, the revenues obtained by the central government accounted for 73.3 per cent of the total budgeted state revenue while those obtained by the local governments amounted to 26.7 per cent. By 1971, the former had dropped to 16 per cent and the latter had risen to 84 per cent. In 1976, the former further fell to 12.7 per cent and the latter rose again to 87.3 per cent. In 1957, the expenditures handled by the central government accounted for 71.8 per cent of the total budgeted state expenditure while those dealt with by local governments accounted for 28.2 per cent. By 1971, the former had dropped to 59.5 per cent and the latter had risen to 40.5 per cent. In 1976, the former dropped again to 46.8 per cent and the latter rose again to 53.2 per cent. It was obvious that both the depth and breadth of local financial activities had been considerably expanded.

(2) The changes in the system of state budget control between 1977 and 1980.

The ten years of internal disorder almost destroyed the national economy and production went from bad to worse. The original practice of allowing local governments to retain all the surplus revenue above the state quota which was proposed

in the early 1970s, and the subsequent practice of dividing the extra revenue between the central and local governments could not be continued because of the unstable revenues resulting from the ups and downs in production. In the year preceding the downfall of the "gang of four", a new system of budget control was adopted under which a fixed proportion of the local revenue was left to the local government at the provincial level regardless of whether the revenue had been successfully collected or not. The local government could retain part of the annual revenue (called the retention system) as its reliable reserve fund according to the proportion calculated on the basis of the annual revenue quotas after a base figure was worked out on the basis of the total annual expenditure of the local government. The proportion varied from locality to locality, the maximum being 6 per cent and the minimum 1.6 per cent. Although this practice guaranteed that local governments' expenditures remained stable and they had a definite source of reserve funds, in fact it meant "everyone sharing food from the same big pot". Every locality got its reserve funds and spent as much as usual regardless of whether it fulfilled the revenue quotas or not. This gave no incentive to the advanced areas. Obviously, this method could not continue. In 1976, a system similar to the practice adopted between 1959 and 1970 was restored, and it lasted until 1977. With the total revenue and expenditure of local governments approved by the central government as a base figure, the proportions allocated to the central and local governments were then fixed. If the total local revenue was smaller than the total expenditure, the whole revenue was left to the local government and the deficit was made up by a fixed subsidy from the central government. All revenues, including taxes, were left to the local government, except for the revenues from enterprises and undertakings directly controlled by the central government and those from posts and telecommunications, foreign trade and customs duties. Invariably included in the budget at each level of the government were the expenditures

it covered. The differences between this practice and the 1959-1970 practice were: (a) since large numbers of enterprises were placed under local government control, the scope of its revenue and expenditure increased; and (b) in preparing the annual budget, a fixed quota of reserve funds was given to the local government and the proportion was the same as that in 1974. In 1977 Jiangsu Province introduced another system under which the province shared its revenue with the central government on a fixed ratio which was worked out on the basis of the revenues between 1973 and 1975 (the retained amount which was 39.1 per cent would remain unchanged for four years). During this period, the province would be responsible for balancing its own budget. If there should be an unexpected natural disaster or a major change in policy, the amount retained could be readjusted. Meanwhile, the decision-making power of local governments in financial matters was also expanded, ending the old practice of the ministries of the central government passing down quotas to the provincial agencies. The quotas from the ministries were used only for reference. The system introduced by Jiangsu Province was largely the same as that in 1958.

In 1978, because the system of dividing the total revenue between the central and local governments and changing the proportions annually prevented local governments from preparing long-term plans for local development, a system of dividing the increased local revenue and linking revenue with expenditure was introduced in ten provinces and municipalities on a trial basis. The main points were: (a) the central government shared a definite proportion of the increased local revenue with the local government over three years so that the latter could have a clear idea of how much reserve fund it would have for local development; (b) the increase in revenue for the fiscal year over the previous year's final accounts was retained in a fixed ratio by the local government as its reserve fund; (c) the original reserve fund from the central government was abolished; and (d) local revenue was linked

with local expenditure. In other words, local revenue was used to cover local expenditure. An annual ratio for retaining part of the local revenue would be worked out on the basis of the expenditure. Any deficit would be covered by a fixed subsidy from the central government. If the local government fulfilled its revenue quota, it could spend according to the expenditure quota. If there was a surplus, it would remain with the local government unless otherwise stipulated by the central government. If the local government could not fulfil the revenue quota, it had to reduce its expenditure in order to balance its budget.

In 1979, China began to carry out the policy of readjusting, restructuring, consolidating and improving the national economy, and adopted a number of major measures. These included raising the purchase prices for farm and sideline products, reducing and exempting some taxes, raising the minimum level at which agricultural tax was collected and increasing the wages of urban workers and staff. Therefore, in 1979 there was no substantial increase in revenue over the previous year. Under these circumstances, the local government was no longer interested in the practice of sharing the increased local revenue with the central government. Therefore, a new system of linking revenue with expenditure and sharing the increase in revenue over the annual quota with the central government was adopted for most localities. In other words, after the proportion of the increase over the annual revenue quota to be retained by the local government was decided on the basis of its expenditure, the local government could spend more if it got more revenue, and spend less if it got less. This system was adopted to encourage local governments to increase their revenues, because they would receive more if the revenue actually collected exceeded the annual quota in the budget.

Although the 1979 system was an improvement upon the previous systems, there were still many defects. (a) The revenue and expenditure quotas were decided annually, so local

governments were unable to make long-term plans. (b) The linking of revenue with expenditure did not produce the anticipated results. Sometimes, although the local government exceeded its revenue quota and retained more in the first year, the base figure became bigger in the following year and made it impossible to gain much more than the new quota. On the other hand, when the local revenue was below the quota, the deficit had to be made up by subsidy from the central government. (c) There were no separate financial boundaries for the central and local governments. Some localities tried hard to secure some of the central revenue, such as retaining part of the taxes and profits that should go to the central government, reducing or exempting taxes at will, cancelling stocks as they pleased, arbitrarily increasing the production costs and falsifying the accounts. These malpractices were not unrelated to the system. Moreover, to fix expenditure quotas once every year also encouraged local governments to vie with the central government for more funds and construction projects. In view of these defects, a new system of dividing revenue and expenditure between the central and local governments and holding each responsible for balancing their budgets was introduced in 1980 for 15 provinces. This was called "serving meals to different diners from different pots".

The features of this system are:

Firstly, dividing revenue and expenditure between the central and local governments.

Under the new system, the revenues for the central government include: (a) revenues from the enterprises directly under the ministries; (b) customs duties; (c) revenues from other sources belonging to the central government; and (d) industrial and commercial taxes collected by the central government.

The local revenues include: (a) revenues from enterprises under the local government; (b) salt tax; (c) agricultural (animal husbandary) taxes; (d) income taxes from local industrial and commercial enterprises; (e) local taxes (animal

slaughter tax, driving licence tax on vehicles and boats, urban real estate tax, fair trade tax and domestic animal trade tax); and (f) revenues from other local sources. These are the fixed revenues for local governments. Twenty per cent of the revenue from enterprises which were once run by the local government and are now directly under the control of the central government is retained as local revenue. This is called fixed ratio shared revenue.

The industrial and commercial taxes are used as revenue for redistribution. If a provincial government finds its revenue insufficient to cover local expenditures, the central government will allocate to it a set proportion of the industrial and commercial taxes.

The expenditures are also divided between the central and local governments.

Central government expenditures include (a) appropriations or loans for capital construction projects undertaken by the central government; (b) additional circulating funds for enterprises directly under the central government; (c) additional bank credit funds; (d) funds for developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation; (e) expenses for developing new products; (f) expenses for geological surveys; (g) military expenditure; (h) foreign aid; (i) expenditure for material supply reserves under the central government; (j) expenses for cultural, educational, scientific and health schemes under the central government; (k) operating expenses for industry, communications and commerce; (l) operating expenses for aiding agriculture from the central government; and (m) other expenditures from the central government.

Local expenditures include: (a) appropriations or loans for capital construction projects undertaken by the local governments; (b) additional circulating funds for enterprises under the local governments; (c) funds for developing the potential of existing local enterprises, replacing their equipment and carrying out their technical transformation; (d) expenses

for developing new products by local enterprises; (e) expenses for aiding agriculture; (f) operating expenses for agriculture, forestry, water conservancy and meteorological work; (g) operating expenses for local industry, communications and commerce; (h) expenses for urban maintenance; (i) expenses for civil air defence; (j) expenses for settling urban residents in the countryside; (k) operating expenses for local cultural, educational, scientific and health work; (l) pension and relief funds; (m) administrative expenses; and (n) other expenditures.

Relief for natural disaster victims and other unexpected and temporary expenditures will be covered by special appropriations from the central government.

Secondly, local governments are responsible for balancing their own budgets.

The revenue and expenditure quotas over a given period are set for each province according to the types of revenues and expenditures described above, and they are used as the base figures for determining the proportion of revenue each province has to hand over to the central government. These base figures also determine the amount of redistribution revenue, and the subsidy from the central government. The provinces are responsible for balancing their own budgets after the proportion and base figures have been fixed for a number of years.

The system of "serving meals to different diners from different pots" was originally intended for the provinces. However, some of the provinces have also adopted this system for the counties under them.

The system has shown the following advantages after it was adopted for one year:

(a) It has encouraged governments at all levels to take the initiative in running their financial affairs. In the past, because local governments were "sharing food from the same big pot", they did not bother about financial affairs. Whoever wanted money would go to their financial department and ask

for authorization to obtain loans or appropriations, or would ask the higher authority for money. Under the new system, local governments can regulate their spending according to the amount of revenue received, and are responsible for their own deficits. Combining power with responsibility forces local government leaders to act scrupulously in financial matters, and think hard of ways to increase revenue and reduce expenditure to obtain a balanced economy.

(b) The development of local economic construction has been accelerated by making the most of the advantages and avoiding the disadvantages. In the past, expenditure arrangements from top to bottom were made mainly by the ministries of the central government and local governments had little room to manoeuvre. Often out of line with specific local conditions, the subjective and bureaucratic arrangements were very harmful. With more decision-making power in financial matters, local governments now have been able to make over-all arrangements, taking into account local financial resources and economic conditions in order to speed up economic construction.

(c) It has improved business management, increased economic results and promoted economic readjustment. The new system has put an end to local governments' dependence on higher authorities. They now pay more attention to practising economy in expanding industrial and agricultural production and undertaking new projects and enterprises; they try to make the most of their investment. As to those enterprises whose goods were unmarketable, of poor quality, or expensive in fuel, electricity and raw materials — they were closed down, ceased production, merged with other enterprises or had their production switched to other lines.

(d) It has helped the joint efforts of governments at all levels to overcome financial difficulties. Whereas the entire burden was put on the central government in the past, now it is shared by the local governments. Although there is little room for manoeuvre in the setting of revenue and expendi-

ture quotas, local governments, because they now assume full responsibility for balancing their budgets, are compelled to solve difficulties and increase revenues and reduce expenditures in any way possible. This helps to put an end to the passive attitude towards financial work.

However, there are also problems in the system of "serving meals to different diners from different pots". These are mainly economic separation, regional blockages, lack of supplies of raw materials to the big cities and duplicated construction projects. So far as the local governments are concerned, the problem is that some local governments have failed to handle properly the relations between the part and the whole. They have paid attention to the part while neglecting the whole or they have taken local interests into account without regard for the development of the whole national economy. As for the central government, the problem lies in the fact that the restructuring of the financial system has gone too far ahead; the changes in distribution have not been accompanied by changes in circulation and planning. Local governments have more funds, but the central government has failed to direct local investment through planning. As regards circulation, the interests between the areas producing raw materials and the areas processing them have not been handled correctly. Moreover, there are also differences in economic gains between localities: some economically underdeveloped and mountainous areas have to receive special attention from the higher authorities because they have few industries and their revenue increases at too slow a pace to meet the needs of development. The other problem is that after local governments are responsible for balancing their own budgets, there is the danger of no guarantee for implementing plans for some undertakings. This calls for better management of the relations between the central and the local governments.

In 1980, at the same time as "serving meals to different diners from different pots" was adopted, a system was intro-

duced in Guangdong and Fujian provinces by which local governments turn over definite revenue quotas to the central government while receiving definite subsidy quotas from it; the quotas remain unchanged for five years. During this period the two provinces can retain the whole of their increased revenues derived from the local economic development. This system offers more benefits to local governments than the system of "serving meals to different diners from different pots" under which they had to turn over a predetermined proportion of their increased revenues to the central government. The new system was adopted mainly to meet the needs of these two provinces where special economic zones have been set up. It gives them even more decision-making power in finance so that they can promote rapid economic growth.

(3) The system of budget control in national minorities areas.

China's autonomous national minorities areas have enjoyed special treatment in financial matters. In general, the areas are economically underdeveloped and their revenues cannot cover their expenditures. All deficits are made up by subsidies from the central government. Moreover, they also enjoy special treatment in the following ways:

(a) The reserve funds for the national autonomous areas are bigger than those for other areas. Reserve funds amount to 3 per cent of the budgeted expenditures for provinces and municipalities and 2 per cent for counties. But they reach 5 per cent for autonomous regions, 4 per cent for autonomous prefectures and 3 per cent for autonomous counties.

(b) Special subsidy funds have been established to help the national autonomous areas meet their special needs in production, livelihood and cultural, educational and health work.

(c) A discretionary fund for national minorities, equivalent to 5 per cent of all operating expenses, has been set aside to help develop cultural facilities in the national minorities areas.

Under the 1980 system of budget control, in addition to the special treatment described above, the national autonomous areas receive a set amount of subsidies from the central government and are responsible for balancing their own budgets. The amount is determined once every five years instead of one year. Moreover, the annual increase in local revenues is left entirely to the local governments and the central government will increase its subsidies by 10 per cent each year.

2. RESTRUCTURING THE SYSTEM OF FINANCIAL MANAGEMENT IN ENTERPRISES

(1) The focal point of the system of financial management in enterprises — to handle well the distribution between the state and the enterprises.

China has built more than 400,000 industrial and communications enterprises, including over 42,000 state-owned enterprises.

State-owned enterprises occupy a leading position in all sectors of the national economy. They provide the most important material basis and source of revenues for China's socialist modernization.

China's state-owned enterprises are different from private enterprises in the West in that they are not completely independent. They are guided by state plans. They do not adopt the supply system that appeared under wartime communism after the Russian October Revolution; they are relatively independent economic units practising business accounting though they are under the overall leadership of the state. These enterprises produce commodities independently with state funds. They must keep business accounting and take responsibility for any losses and profits and undertake financial obligations while the government checks and supervises their losses and profits.

What state-owned enterprises produce are commodities. The process of reproduction in the enterprises is not only a

process of material compensation, but also a process of value compensation. In production, the purpose of financial management in enterprises is to help them keep the equipment in good condition, save funds, reduce costs, increase income and expand production by controlling all the links in the process of value compensation. With regard to distribution, the purpose is to deal efficiently with the relations between enterprises and their workers and staff and give full scope to their initiative and enthusiasm. As regards circulation, the purpose is to facilitate financial relations between enterprises, between enterprises and the bank and between industry and commerce so that reproduction proceeds smoothly. Financial management of enterprises refers in general to microeconomic financial management within enterprises, such as planning, accounting, supervision, regulation and analysis.

Apart from microeconomic financial activities, there are also macroeconomic financial activities. State-owned enterprises have to accept overall state leadership as they are owned by the whole people. Therefore, the state and the enterprises are financially related. This relationship is handled in accordance with the system of financial management in the enterprises. In state-owned enterprises the means of production belong to the state. The enterprises can use them, but not own them. Ownership determines how the income earned by the enterprises is distributed. The most important aspect of financial management is to set the guidelines for the distribution of the net income between the state and the enterprises. An important task for financial workers at all levels is to handle such distribution properly. Of course, financial management is not limited to distribution. The obligations of the enterprises to the state in return for using state property and the power they have are also important aspects of what financial management has to deal with. However, only when incomes are distributed well and leadership and workers concern themselves with the enterprises in consideration of their material interests, is it possible to manage and use

the funds from the state well and achieve the best economic results. Therefore, whether the system of financial management in the enterprises is good or bad is important to micro-economic financial management.

The system of financial management in the enterprises is a very important part of the financial system. It is a salient feature of the socialist system. It is important to restructure the system of budget control; otherwise either local government initiative would be hampered or the overall balance disrupted. However, it is even more important, in a sense, to reform financial management. Material wealth is actually created by the workers and staff of the enterprises so if any change in the superstructure fails to stimulate their enthusiasm and initiative, it is reduced to merely a formality which will not help promote economic growth.

The main problems to be solved through financial management are: (a) how the state can, through the rational distribution of funds, ensure that enterprises have the right conditions for maintaining simple reproduction or expanding production to a certain extent, (b) what system of distribution should be adopted so as to give due considerations to the interests of the state, the collective and the individuals, (c) what obligations enterprises should have towards the state when they use state funds. To ensure that enterprises have the right conditions for reproduction and, furthermore, increase production in keeping with social needs and objective possibilities, it is essential for enterprises to obtain the requisite financial resources and financial power. Moreover, in order to encourage enterprises and their workers and staff to take an interest in whether the economic units are run well or not, they must have the right to share part of the income.

The system of financial management underwent changes before 1977 as financial power was centralized or decentralized. During the period of economic rehabilitation and the period of the First Five-Year Plan, financial power was more centralized in line with the political and economic situation at

that time. The profits and basic depreciation funds of the enterprises were all turned over to the state, while expenditure on capital construction projects, operating expenses and expenses for technical and safety measures, development of new products and minor capital construction investments were all covered by state appropriations. At the same time, the state also gave enterprises some financial power. For example, systems of bonus funds and above-quota profit sharing were adopted. Sixty per cent of the profit above the quota was turned over to the ministries in charge and 40 per cent was left to the enterprises mainly for renewal and improvement of their fixed assets. These systems were related to economic performance. Those enterprises which overfulfilled their plans could get bigger incomes. This embodied the principle of material benefits to a certain extent.

During the "great leap forward" in 1958, when economic management was decentralized, financial power was extended to the enterprises. Bonuses were abolished. And a profit-sharing system was introduced by which the enterprises retained a fixed proportion of their profits each year. The proportion was determined after consideration was given to the actual expenses for technical and safety measures, development of new products and minor capital construction investments, bonus funds, socialist emulation bonus funds and shares of above-quota profits during the First Five-Year Plan period and to the total amount of profits during the same period. Enterprises had the power to use the money for expanding production and improving workers' and staff's welfare. Moreover, other systems were adopted, such as compensation for the use of all circulating funds, allowing enterprises to keep the income derived from the increasing prices of the fixed assets and granting them small loans for technical measures. Enterprises were permitted to apply for loans when the retention funds were insufficient to cover the renewal or improvement of fixed assets. These changes increased the financial power of the enterprises and took into account the economic

interests of both the state and the enterprises. This policy was going in the right direction. It was a pity that under the guidance of the erroneous "Left" ideology, the mistakes of seeking high production targets, giving arbitrary orders in construction and production and exaggerating the economic results plunged the national economy into a difficult position, and the reform of the system was halted before the lessons from experience could be learned.

Between 1962 and the beginning of the "cultural revolution" in 1966, the pre-1958 system of financial management was restored in the enterprises. With the exception of the commercial undertakings, enterprises under all departments stopped retaining their profits. All expenses for technical and safety measures, development of new products and minor capital construction investments were covered by state appropriations and no compensation was needed for the use of circulating funds. And a system of drawing funds for maintaining simple reproduction on the basis of output was introduced in the coal mining, metallurgical, mining and lumbering enterprises. For example, from 1962, the lumbering business drew five yuan per cubic metre of log output for maintaining reproduction and it was included in the cost. From 1965, the state stopped investing in the expansion of existing coal mines and they could draw one yuan for each ton of unprocessed coal in advance for maintaining simple reproduction and include it in the cost.

During the "cultural revolution", there were great difficulties in reforming the system of financial management in the enterprises. However, some changes were made. Starting in 1967, the system of giving appropriations to cover the cost of technical and safety measures, development of new products and minor capital construction investments was no longer in force, and the depreciation funds originally included in the state budget were turned over to the local governments, departments in charge and enterprises, thus expanding to a

certain extent their decision-making power over financial matters.

Historically, the system of financial management in the enterprises has changed several times; power was sometimes centralized and sometimes decentralized. However, the general trend was that the funds appropriated by the state for the development of production have gradually increased. The funds for developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation (including retention funds, appropriations and bank loans) constituted 5.5 per cent of the combined total profit and depreciation funds during the period of the First Five-Year Plan; 15 per cent during the "great leap forward" as a result of the profit-sharing system; 9.5 per cent between 1962 and 1966 when financial power was centralized; and 24.7 per cent between 1967 and 1976 when the depreciation funds were turned over to the enterprises.

(2) Pending problems in the system of financial management in the enterprises and preliminary changes over the past few years.

After the downfall of the "gang of four", a further reform of the system of financial management in the enterprises became the order of the day. Although the financial power of the enterprises had expanded continuously in the previous years, there were still problems:

(a) The financial power of enterprises at the basic level was still small. Although the annual state funds for developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation grew steadily, reaching 30.4 per cent of their profits in 1978, one-third of the funds could not be used by the enterprises themselves unless they were spent on designated projects with the approval of the higher authorities. Moreover, although under the system the enterprises could retain 50 per cent of their depreciation funds, the higher authorities concentrate them level by level until the actual percentage retained was often

cut down to 40 per cent, 30 per cent or even 20 per cent. Often the portion retained was used to cover deficits in capital construction funds and funds for developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation, so little was left for the enterprises to dispose of.

(b) Power was divorced from responsibility. The distribution of the profit and funds of an enterprise was not closely connected with economic performance. The interests of the state, the enterprises and the workers and staff were not closely linked. All profits were turned over to the state and all losses were covered by state subsidies. Those enterprises which increased their profits could not increase their income. Those which incurred more losses had them covered as usual by state subsidies. The depreciation funds were put aside regardless of the condition the equipment was in. The more fixed assets an enterprise had, the more funds it drew. The welfare fund was also calculated at a fixed percentage of the enterprise's total payroll. The greater the labour force, the greater the payroll, and the greater the welfare fund. Such practices were not conducive to giving full play to the initiative of the enterprises and of the workers and staff in improving business accounting and efficacy.

To encourage enterprises to strengthen their business accounting and improve management, so as to fulfil or overfulfil the state plan in an all-round way and increase state accumulation funds, a system of enterprise funds was introduced in November 1978. Its main points were:

(a) An industrial enterprise which fulfils all the eight annual quotas (in output, variety, quality, consumption of raw materials, fuel and power, labour productivity, costs, profit and use of circulating funds) and abides by contracts with other enterprises to supply them with goods shall draw an enterprise fund amounting to 5 per cent of its total annual payroll. An enterprise is obliged to fulfil the four quotas for output, variety, quality and profit. If it fails to fulfil these

quotas and its contracts, it is not entitled to the fund. The departments in charge of enterprises at all levels can also draw a fixed percentage of the above-quota profits as enterprise funds.

(b) The enterprise fund is mainly used for running collective welfare facilities, for workers and staff, for establishing farming and sideline undertakings, covering the deficits in the workers' and staff's welfare fund and issuing bonuses to encourage socialist emulation.

Fifty per cent of the enterprise fund drawn by the departments is used for awards to enterprises which overfulfil their profit quotas. The other half is used for technical measures in production and collective welfare facilities for all enterprises under the departments.

Some changes were made in the system shortly after it was introduced. In checking up on the operation of an enterprise, the eight qualifying quotas and the fulfilment of contracts were changed to four targets — output, quality, profit and fulfilling contracts. Any enterprise which fails to fulfil the profit quota cannot put aside any enterprise fund. In addition, under the system, it is not the department with overall responsibility for enterprises under them but the enterprises themselves which draw a proportion of their profits above those laid down in the plan. The higher level of administration can concentrate some of this according to the different circumstances of enterprises under their control. It was also stipulated that the enterprise fund derived from the fulfilment of state plan targets should be used mainly for collective welfare facilities for workers and staff and that the fund derived from increased profits should be devoted mainly to adopting technical measures to boost production. Not more than 20 per cent of the enterprise fund put aside in a particular year should be used for bonuses to encourage socialist emulation that year.

After enterprise funds were introduced, enterprises had greater financial power, but the system was only related to

the payroll of an enterprise. The bigger the labour force an enterprise had, the larger the amount of funds it could get. The system was adopted to encourage advanced enterprises, but failed. It did not link material rewards with business success.

In July 1979, the State Council issued the Regulations for Profit Sharing in the State-Owned Enterprises. It was decided that some enterprises should retain the whole of their profits. The basic point was that how much of the whole of profits should be retained would be fixed by linking them with the four funds (the welfare fund for workers and staff, the bonus fund, the enterprise fund and the state appropriations for scientific research and training workers and staff) and a certain amount of new product development expenses. In principle, the proportion would remain unchanged for a period of three years. An enterprise could retain a fixed proportion of its profit for the establishment of the production development fund, the welfare fund for workers and staff and the bonus fund. If profits grew, the retention fund would also increase. This was to encourage enterprises to reduce costs, raise output, and improve quality so as to accumulate more funds for the state.

In the course of the experiment, reports came from quite a few localities that the enterprises which had formerly made little profit, employed more workers and had greater potentials for increasing their profit retained a higher percentage and therefore gained more while those enterprises which had formerly made large profits owing to better business practices and employed fewer workers got a lower retention proportion and as a result gained less from their increased profits. This was unfair. In order to solve the problem and encourage enterprises to increase production and income, another system which combines the retention of a base figure of profit with the retention of increased profit was introduced in 1980. In other words, when an enterprise makes more profit in one year than in the previous year a set proportion of the part

of the profit equivalent to the previous year's profit is retained as funds. The state sets different ratios for the funds to be retained from increased profits over the previous year's level. But the enterprise can only retain the set proportion of the profit made in one year if it is lower than in the previous year. After this change, an enterprise can get twice as much from its increased profit as it got before.

There were also changes in the way of checking up on the operation of enterprises. It was previously stipulated that an enterprise could retain a set proportion of profits as funds as long as it made a profit. As this would encourage enterprises to make a profit, not to fulfil all the quotas set by the state, it was reaffirmed that an enterprise can put aside the whole of the fund to be derived from the retention of a set proportion of funds only when it has fulfilled all the four state targets — in output, quality, profit and fulfilling contracts. In view of the fact that some enterprises used too much of the profit retention fund for bonuses, the new system also provided a ceiling on bonuses, that is, they should not exceed two months' average basic pay of the workers and staff in an enterprise. The actual bonuses depend on the contributions they make. Those who work more get bigger bonuses.

A system of compensatory payments for the use of fixed assets was experimentally introduced in 1980 for enterprises in which the system of profit retention was applied. The amount varied from industry to industry, depending on the profit from the assets. The maximum monthly rate was 0.8 per cent, the minimum was 0.2 per cent. Moreover, starting on October 1, 1980, all enterprises, after their assets have been checked, must pay for the use of circulating funds at a monthly rate of 0.21 per cent. Both payments would be made out of the sales income of an enterprise and as state revenues.

Gratifying changes have taken place since the new profit retention system was introduced.

(a) The importance of financial work has been increased. Instead of being indifferent to financial work as in the past, leaders of enterprises have paid close attention to financial work and business practices by taking charge of the book-keeping. Enterprises which do not have enough work would try hard to find sources of raw materials and markets to increase their products and income. The enthusiasm for production is unprecedented.

(b) It has stimulated the reform of the whole economic structure. Under the profit retention system, an enterprise which wants to retain more must make every effort to increase production and practise economy. However, the systems of planning, supplies and prices have obstructed their efforts in this direction. After the profits retention system was introduced, contradictions of all kinds have surfaced, compelling people to take measures to solve them.

(c) It has helped the enterprises improve their business accounting systems. In order to increase production and income, an enterprise has to keep strict accounts, putting an end to the old supply system which provided "meals from the same kitchen" to all workshops regardless of the differences in their contributions. As a result, new forms of accounting have appeared and workshops in many enterprises have successfully linked together their power, responsibilities, achievements and interests.

(d) It has helped enterprises increase their production and income. In 1979 the system of profit retention was adopted in 1,600 enterprises which retained a total of 1.197 billion yuan as the profit retention fund for that year, 409 million yuan more than they got under the enterprise fund system. Their combined output value was 10.9 per cent greater than in 1978, the total profit was up by 13.4 per cent and the profit turned over to the state was up by 11.4 per cent, much higher than the average growth rate for industrial enterprises in China. By September 1980, more than 6,600 enterprises in 29 provinces, municipalities and autonomous regions had

adopted the system. The growth rates in output, output value and profits turned over to the state were generally higher than before the system was adopted and higher than those in enterprises which did not adopt the system.

In 1980 a few enterprises in Shanghai, Sichuan and Guangxi also introduced on a trial basis the system of independent accounting, paying taxes to the state and assuming sole responsibilities for their profits and losses. These enterprises now pay taxes instead of turning over their profits to the state. After paying taxes, they have kept the remaining part of their profits at their own disposal under the guidance of state planning. Those which run production better and get more profits can retain more. Enterprises which run at a loss are responsible for recovering the loss and get no subsidies from the state. The adoption of the system has not only changed the financial system of enterprises, it has also resulted in changes in production and circulation. This system is a new and valuable endeavour in the course of extending the decision-making power of enterprises.

IV. REFORM OF THE TAXATION SYSTEM, AND THE TASKS FOR TAXATION IN THE NEW PERIOD

1. EVOLUTION OF THE TAXATION SYSTEM SINCE THE FOUNDING OF THE PEOPLE'S REPUBLIC

Taxation is a means used by the state for the distribution and redistribution of the national income by relying on its political power. In all societies, the power of distribution relies on two factors: political power, and the right to own property. By its nature taxation comes under the first. It seems unnecessary to have a system of taxation in socialist China, as the state economy forms the main sector of the economy and the state has the right to the property of state-owned enter-

prises and may obtain directly their net profits. It was because of this that some people in the country advocated the abolition of taxation in favour of a method which combines taxation with turning profits over to the state. However, in practice this has proved harmful. There are several reasons for China to retain taxation and strengthen its functions. First, diverse economic sectors co-exist and the state can obtain a proportion of the national income from the non-state sectors of the economy only by taxation. Secondly, as taxation by its nature is compulsory, fixed and without compensation, it will help the state acquire a balanced and stable revenue. Thirdly, the state must use the lever of taxation to coordinate with the price and credit levers to promote changes in production relations, improve business accounting in the enterprises and regulate the relations between production, distribution, exchange and consumption. Because of the reasons mentioned above, China retains taxation even for state-owned enterprises.

In the past three decades, taxation, a distribution lever under state control, has played a significant role in regulating the incomes from all sectors of the economy, accumulating construction funds, regulating the national economy in a planned way and promoting the growth of the productive forces.

The rehabilitation period of the national economy. Shortly after the People's Republic of China was founded, the government promulgated the Principal Rules for Taxation in China in accordance with the policy guideline laid down in Article 40 of the Common Programme of the Chinese People's Political Consultative Conference: "The taxation policy of the state shall be based on the principle of ensuring supplies for the revolutionary war and giving consideration to the rehabilitation and development of production and the requirements of national construction. The system of taxation shall be simplified and equitable distribution of burden effected." The Principal Rules stipulated that apart from agricultural tax, there were 14 categories of unified national taxes: commodity

tax, industrial and commercial tax, salt tax, customs duty, income tax on salaries and remunerations, income tax on interests, stamp tax, inheritance tax, trade tax, animal slaughter tax, house property tax, tax on landed property, excise tax, and driving licence tax on vehicles and vessels. With the exception of income tax on salaries and remunerations and the inheritance tax which were not levied, tax laws on all categories of tax were published one after another and enforced throughout the country.

In 1950, in order to unify the procedures for the financial and economic work in China and strive for a fundamental improvement in the financial and economic situation and lighten the people's burden, taxes were readjusted. First, the tax categories were simplified and merged. For instance, house property tax and landed property tax were consolidated into urban real estate tax, and it was declared that income tax on salaries and remuneration, and inheritance tax would not be levied. Secondly, the taxable items were reduced in number, such as merging the 1,136 items listed in the commodity tax into 358 and the 30 items of the stamp tax into 25. Thirdly, the rates of income tax, housing and land tax and salt tax were lowered.

In 1951, a planned marketing tax was levied in order to keep pace with the policy of planned marketing of cotton yarn by the state.

With regard to agricultural tax, in 1950 the Provisional Regulations on Agricultural Tax in New Liberated Areas was published and a taxation system based on progressive rates was adopted. The old liberated areas adopted the proportional taxation system which was applied in the revolutionary bases. After land reform was completed in the new liberated areas, progressive taxation was revised. The grades of tax rates were reduced and the gaps between the rates narrowed.

The period of the First Five-Year Plan. In 1953, to keep pace with the ever-deepening socialist transformation of capitalist industry and commerce and to meet the needs of the

state-owned enterprises for strengthening business accounting, the principle of guaranteeing taxation and simplifying the taxation system was decided upon, and important revisions were made to the original industrial and commercial taxation system. Primarily, the commodity circulation tax was levied on a trial basis. As for some of the major products, the formerly levied commodity tax, business tax, business surtax and stamp tax were simplified and consolidated and tax was only levied once during the whole process from production to sale. The commodity tax was simplified, business tax revised, excise tax abrogated, the tax on the planned marketing of cotton yarn and the cotton trade tax were combined into the commodity circulation tax, the trade tax on grain and hand-woven cloth was replaced by the commodity tax and the trade tax on medicinal herbs suspended. After this revision, China still had 11 kinds of industrial and commercial tax: commodity circulation tax, commodity tax, business tax, stamp tax, salt tax, domestic animal trade tax, animal slaughter tax, urban real estate tax, entertainment tax, driving licence tax on vehicles and boats, and income tax on interests. In addition, there was customs duty.

From the period of the Second Five-Year Plan to 1972. Following the success of the socialist transformation of private ownership, it was still necessary to simplify further the taxation system to meet the need to continually develop socialist construction. In 1958 the principle of simplifying taxation on the basis of the original tax burdens was decided upon.

Simplification of the taxation system this time involved, first, simplifying the tax categories, i.e., consolidating the commodity circulation tax, commodity tax, business tax and stamp tax originally imposed on industry and commerce into a consolidated industrial and commercial tax. Next, the income tax included in the industrial and commercial taxes was changed into an independent tax category called industrial and commercial income tax. Thirdly, taxation was simplified. In general, semi-finished products during a continuous process

were not taxed except when it was stipulated otherwise. Fourthly, there was a partial readjustment of the tax rates, a readjustment which basically maintained the original tax burdens.

After the reform of the taxation system, in 1959 income tax on interests was suspended. In 1962, to control rural fairs, a fair trade tax was levied all over the country. In 1963 the industrial and commercial income tax was readjusted to correct the inequitable situation of the individual economy carrying a lighter load than the collective economy, and co-operative commerce having a lighter load than other sectors of the collective economy. Appropriate improvements were also made in taxation. In 1966, the entertainment tax was suspended. After the above reforms, there were eight kinds of tax on industry and commerce: consolidated industrial and commercial tax, industrial and commercial income tax, salt tax, animal slaughter tax, domestic animal trade tax, driving licence tax on vehicles and boats, urban real estate tax and fair trade tax. There was also customs duty.

In 1958, while the industrial and commercial tax system was being reformed, the agricultural tax system was unified. In June that year, the Regulations for the Agricultural Tax of the People's Republic of China was published and the progressive taxation which was in force in the new liberated areas was abrogated. A system of taxatoin based on different proportional rates in different parts of the country was carried out all over China, and the policy of stablizing the burden and increasing no tax despite any increase in production was continued.

In 1973 a new industrial and commercial tax was tried out. This reform was another step towards the simplification of the taxation system. The main aspects of the reform included, first, the merging of tax categories. The consolidated industrial and commercial tax and its surtax formerly imposed on industrial and commercial enterprises, the urban real estate

tax, the driving licence tax on vehicles and boats and the animal slaughter tax were consolidated into the industrial and commercial tax. The urban real estate tax, the driving licence tax on vehicles and boats and the animal slaughter tax were levied only on individuals and foreigners residing in China. Secondly, the tax items and tax rates were simplified. The tax items in the consolidated industrial and commercial tax and its tax rates had been rather complicated. After the reform, the tax items and tax rates were classified and simplified. Thirdly, a few necessary readjustments in tax rates were made. For instance, the tax rates for farm machinery, chemical fertilizer, insecticide and cement were reduced to aid agricultural production while the tax rates for wrist-watches, sewing machines and other high grade necessities were raised slightly. Fourthly, many irrational regulations and rules were abrogated such as abolishing the tax on semi-finished products and so forth. After this reform, there were still eight categories of industrial and commercial taxes: industrial and commercial tax, industrial and commercial income tax, salt tax, animal slaughter tax, urban real estate tax, driving licence tax on vehicles and boats, fair trade tax and domestic animal trade tax. There was also customs duty.

To sum up, the changes in China's taxation system are characterized by the following:

(a) During the period of rehabilitation, double taxation was adopted for industry and commerce. The main point was that a commodity tax, a business tax and a stamp tax were levied at the same time on production and sales by the industrial and commercial enterprises. Some were levied several times. Such a taxation system was adopted to cope with the existence of diverse economic sectors at that time, in particular the existence of a vast number of capitalist industrial and commercial enterprises. Capitalist industry and com-

merce not only engaged in various forms of business but often evaded paying taxes. Double taxation facilitated the policy of utilizing, restricting and transforming capitalist industry and commerce.

(b) Changes in tax categories show that in China tax is levied chiefly on production and circulation. The main source of taxation is the industrial and commercial tax which provides over three-fourths of the total income from taxation. It is levied on the circulation of goods. Taxation in China has hardly ever been aimed at individual incomes. This is because it is not appropriate to increase the people's burden by taxing their income which is low under the low-wage system. Meanwhile, in a socialist country such as ours, individual incomes do not vary greatly. It is unnecessary to regulate the incomes of different strata by imposing an income tax. It was only in the period of socialist transformation that an industrial and commercial income tax was levied on incomes of industrial and commercial capitalists by dividing the profits of the enterprises into four parts (34.5 per cent for the state, 15 per cent for the workers' and staff's welfare fund, 30 per cent for the accumulation fund of enterprises, and 20.5 per cent for dividends for the capitalist). This was part of the policy of utilizing, restricting and transforming capitalist industry and commerce.

(c) After the success of the socialist transformation the constant trend of reform was to simplify the taxation system. Although this was necessary, there remained a certain degree of bias towards simplifying the system. People thought that as socialism would gradually advance towards a unitary system of ownership, the simpler the taxation system the better. As a result, there were fewer and fewer kinds of taxes. Some kinds of tax which should be levied independently were simply merged with other categories. Although this simplified taxation somewhat, its function as an economic lever was weakened.

2. REFORM OF THE TAXATION SYSTEM DURING THE NEW PERIOD

After the smashing of the "gang of four", the focus of the new era is on socialist construction. There have been profound changes in the economic sphere, which has demanded a further reform of the taxation system in the following ways.

(1) Taxation must be adapted to the new situation of diverse economic sectors existing side by side. In line with government policy, the individual economy, joint ventures and enterprises with sole overseas investment are allowed to exist and develop in China's social economic structure alongside ownership by the whole people and collective ownership. But at present the taxes are too few in kinds to adjust the incomes of different strata. In organizing production, the present policy is to advocate economic integration and encourage enterprises to move in the direction of specialization and coordination. But now a product processed in different factories working in coordination can be taxed more than once. This discourages enterprises from economic integration.

(2) Taxation must improve its function of regulating the economy. This means that the tax on products should be planned so as to keep the post-tax profits of all products roughly balanced, in order to prevent enterprises from recklessly making products which produce large profits but are not suited to the state plan and market demand. Tax reforms in the past used to emphasize the simplification of the taxation system on the basis of the original tax burdens, but for a long time, tax rates have not been investigated. Production has not developed in a balanced way. Because of improved techniques, increased labour productivity and changed conditions of material resources, many industrial and commercial tax rates are already very divorced from the actual accumulation rate. After tax payment, the differences in profit between products are increased. Enterprises, in order to increase profits, would either refuse to make products with low profit or recklessly

produce goods with big profits. The former case would adversely affect the state plan and the needs of the people. The latter case would result in the stockpiling of goods. Therefore it is necessary to regulate the economy through taxation and make profits even. Another situation is that the state, in order to encourage or restrict production, promote or cut consumption, or to regulate supply and demand, often deliberately has a pricing policy which disregards the value of goods. This also requires effective control through taxation.

(3) Taxation must improve its role in regulating the differential incomes. Enterprises making the same products often have differing profit rates. This is sometimes a reflection of differences in personal effort and the level of management, but sometimes it reflects differences in equipment and natural resources. The differences in profit as a result of objective conditions are differential incomes. This was of no importance to the enterprises before they were granted greater decision-making powers because the differential incomes were handed over to the state. However, after they were given more decision-making powers and the profit retention system was adopted, if differential incomes were not regulated, it would cause an unfair distribution of incomes between enterprises, making it impossible for them to launch socialist emulation from the same starting point. This must be regulated through taxation.

(4) Taxation must improve its function of safeguarding state sovereignty and its economic interests. Since the Chinese Government adopted an open policy, economic relations between China and other countries have expanded daily. As a result of importing advanced equipment, introducing advanced techniques from abroad, using foreign capital and employing foreign experts, there have appeared in China various forms of economic revenue such as the profit from foreign capital, interest on foreign loans, income from patent rights and high individual incomes. Therefore, a suitable system of

taxation should be formulated in order to implement thoroughly the principle of equality and mutual benefit.

To cope with the above needs China plans to make the following changes in her taxation system:

(1) To revise the product tax which consists mainly of the industrial and commercial tax in order to coordinate taxation with pricing, to regulate production and consumption and help the planned economy.

For this reason, in working out the tax rates, it is necessary to take into account the regulatory effects of prices on production and consumption and make revisions with a view to balancing the profits of enterprises. Furthermore, tax categories in the industrial and commercial tax were determined irrationally, as tax may be levied on a number of products which are listed under two or three tax categories. For instance, liquefied petroleum gas may be taxed at a rate of 10 per cent as a "by-product of mineral oil", or at a rate of 13 per cent as a chemical product of gas producing enterprises, or at a lower rate, even exempt from tax, as a by-product of comprehensive utilization of "industrial wastes". For many years there have been strong repercussions because of the differences in tax burdens between areas where the taxes are understood and collected differently. From now on, tax items must be worked out rationally and scientifically and inconsistencies must be avoided, thus making the tax law authoritative.

(2) To experiment with value-added tax in certain trades and overcome the drawbacks of levying taxes repeatedly on semi-finished products. The aim is to facilitate coordination among specialized enterprises.

The present industrial and commercial tax is levied on the finished products of factories that can handle the whole production process. Moreover, the semi-finished products of factories which do not perform all the production processes, products that go through two or more factories and spare parts are taxed more than once. This has created unfairness in

the tax burden between specialized and non-specialized plants and between factories that are capable of performing all the processes and those that are not. It encourages an enterprise to become self-sufficient, not to move in the direction of co-ordination and specialization. Therefore, preparations are made to experiment with imposing value-added tax on the machine building and farm machinery industries where the problem of semi-finished products is most prominent.

Whether it is necessary to implement value-added tax on a comprehensive scale remains to be seen in the course of experimentation. While value-added tax helps promote co-operation between specialized enterprises, tax assessment depends on whether an enterprise has really increased the value of its products. If the enterprise is badly managed and instead of making a profit it suffers losses, then the state would have no tax to levy. Therefore value-added tax is not as stable as product tax. Moreover, it can hardly prevent local authorities from building small and backward plants to produce the same kind of goods as big and advanced plants, causing the latter many difficulties in production such as raw materials shortages.

(3) To try to levy a regulatory tax on income and a tax on natural resources in order to regulate the relations between state-owned enterprises and to encourage enterprises to practise business accounting.

These two taxes are to be collected mainly from enterprises which have gained differential incomes because of their advanced technical equipment and rich natural resources. Thus the economic results achieved by the enterprises' own efforts can be evaluated relatively accurately.

(4) To levy a tax on fixed assets and a tax on circulating funds (to pay for the use of fixed assets and circulating funds before the two taxes are introduced) to spur enterprises to make full use of state investment.

At present, there are big wastages in the fixed assets and circulating funds of enterprises. This is related to the im-

balance among different sectors of the national economy. It is also attributable to the fact that enterprises take no economic responsibility for the equipment and capital given them by the state. If they had to pay tax for the use of funds and equipment it would make them practise economy in this regard in consideration of their material interests. In the 1950s, the use of circulating fund with compensation was tried out without achieving the expected results mainly because it was not linked with giving enterprises more power. Now that the system of enterprises sharing their profits with the state has been adopted, to pay for the use of fixed assets and circulating funds would work. For the enterprises would suffer directly if they use funds and equipment extravagantly and therefore have to pay more compensation fees and share less profits.

(5) To levy income tax on joint ventures with Chinese and foreign investment, individual income tax and registration tax, and restore stamp tax and excise tax.

The further reform of the taxation system would go farther than previous reforms in its extent and depth. It is expected to have a bigger influence on all aspects of economic life. Therefore precaution and prudence are stressed. In 1980 the Ministry of Finance started experimenting with reforms in Liuzhou, Guangxi Zhuang Autonomous Region, by combining the tax reform with the restructuring of the financial system in enterprises and replacing the transfer of profit to the state by tax payments. The state collected four kinds of taxes and two kinds of fees from enterprises.

(a) Value-added tax. For machinery, farm machinery and implements, tax was levied on the remaining part of proceeds from sales after the cost of raw and other materials was deducted instead of on the whole proceeds as in the past.

(b) Tax on natural resources. It was levied on crude oil, natural gas, coal, metal and non-metallic mineral products.

(c) Regulatory tax on differential incomes. It was levied according to the enterprise's sales profits. No tax was levied on products sold at a profit of less than 15 per cent. For those

with a profit margin above 15 per cent, a 0.6 per cent regulatory tax was levied on every increase of 1 per cent in profit in excess of the margin.

(d) State-owned enterprise income tax. It was levied at a fixed rate of 50 per cent of the enterprise's income. The amount of income was calculated by deducting costs, expenditure on non-productive activities, industrial and commercial tax and regulatory tax on differential income from the total proceeds from sales. Fifty per cent was turned over to the state and the rest left to the enterprise.

(e) Fees paid for the use of fixed assets and circulating funds. Dividends were shared out according to the capital invested and fees for the use of circulating funds were linked to profits after tax had been paid.

Sichuan, Hubei and Shanghai also experimented with tax reforms to a limited extent. The experiments were basically the same as that in Liuzhou. Henceforth, progress will be based on the experience gained.

3. ESTABLISHMENT OF SEVERAL NEW TAX SYSTEMS

(1) Formulation, publication and implementation of the Income Tax Law Concerning Joint Ventures with Chinese and Foreign Investment.

With a view to expanding international economic co-operation and technological exchange, China permits foreign companies, enterprises, other economic entities or individuals to run joint ventures with Chinese companies or other economic entities within Chinese territory on the principle of equality and mutual benefit. Hence, the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment was published in July 1979.

The first problem in the establishment of a joint venture using Chinese and foreign investment is how to deal with the relation of rights and interests between the state and the joint

venture. In order to define explicitly such a relation, the Third Plenary Session of the Fifth National People's Congress convened in September 1980 adopted the Income Tax Law of the People's Republic of China Concerning Joint Ventures With Chinese and Foreign Investment.

The law stipulates that it applies to joint ventures using Chinese and foreign investment set up within Chinese territory. But taking into consideration the development of the joint ventures and the possibility of their establishing branch offices within or outside Chinese territory, China adopts the current taxation practice widely used in the world. Tax on the income derived from production, business management and other sources by the branches of joint ventures shall be paid by their head office. Income tax paid by branch offices outside China may be credited against the assessed income tax of the head office. Where agreements on avoidance of double taxation have been concluded between the Government of China and the government of another country, income tax credits shall be handled in accordance with the agreements.

As to the rate of income tax, the tax law stipulates that proportional tax shall be adopted for joint ventures. The rate is fixed at 30 per cent and a local surtax of 10 per cent of the assessed income tax shall be levied. This is lower than the rate of around 50 per cent in many developed countries. In developing countries the tax rate ranges between 35 and 40 per cent. With local surtax, China's income tax rate of 30 per cent increases to 33 per cent, which is still lower than that of most developing countries.

The income tax rate concerning joint ventures exploiting petroleum, natural gas and other resources shall be fixed separately, mainly because co-operative exploitation of such resources between China and foreign countries is different from the business of joint ventures in general. The conditions are more complicated. In all countries the tax rate is generally higher, and in some, income tax, or a special tax, on petro-

leum is levied. China is preparing to study the problem further and to formulate tax rates suitable for China.

To encourage foreign participants to use or reinvest their share of profits in China, the tax law stipulates that no income tax shall be levied on their profits except for the 10 per cent tax which shall be imposed on the profits remitted abroad.

The tax law has laid down four preferential treatments for joint ventures.

(a) A newly established joint venture scheduled to operate for a period of 10 years and more shall be exempt from income tax in the first profit-making year and allowed a 50 per cent reduction in the second and third years.

(b) Joint ventures engaged in low-profit operations such as farming and forestry or set up in remote, economically underdeveloped areas may be allowed a reduction of 15 to 30 per cent in income tax for another 10 years following the first three profit-making years.

(c) To encourage reinvestment, it is stipulated that a participant in a joint venture who reinvests his share of profit within Chinese territory for a period of at least five years may obtain a refund of 40 per cent of the income tax paid on the amount reinvested.

(d) In calculating the taxable income of joint ventures there are two more provisions for preferential treatment. Under one provision, apart from a period of depreciation which applies to fixed assets in general, the period may be fixed separately in cases where depreciation is accelerated for special reasons. This is stipulated in the Detailed Rules and Regulations for the Implementation of the Income Tax Law. Under the other provision the losses incurred by a joint venture in a tax year may be made up by gains in the next tax year. If they are smaller than the losses, the balance may be recovered over a period of five years beginning the following year.

China's income tax law for joint ventures was formulated in accordance with the actual conditions of running joint ventures in recent years and with reference to conventional international practices. It embodies the spirit of equality and mutual benefit and will be advantageous to the development of joint ventures.

(2) Formulation, publication and implementation of the individual income tax law.

The Principal Rules for Taxation in China promulgated in 1950 stipulates that income tax on salaries and remuneration shall be levied. But it was declared that for a short time the tax would not be levied. Later on as a low-wage system was adopted and the people's income was not very high, individual income was not taxed. With the growth of the economy in the future, there will be more people receiving higher incomes and naturally they should contribute more to the state. Particularly, with the development of economic relations with other countries, the number of foreigners earning their income in China is increasing; overseas Chinese pay their individual income tax according to the regulations of the countries in which they settle; at the same time, more and more Chinese are engaged in economic activities and other forms of labour abroad and they have to pay income tax as stipulated by the countries where they reside. Based on the principle of equality and mutual benefit, the individual income tax law of China was formulated in accordance with actual domestic conditions and international practice to safeguard national economic interest.

The tax law stipulates that tax shall be levied on the incomes gained inside or outside China by any individual residing for one year or more in China; for individuals not residing in China or individuals residing in China for less than one year, tax shall be levied only on the income gained within China. This conforms to international practice.

The tax law lists 6 categories of income on which tax shall be levied: (a) wages and salaries; (b) remuneration for per-

sonal services; (c) royalties; (d) interest, dividends and bonuses; (e) income from leasing property and (f) other kinds of income. Because there will be new categories of income to be specified as taxable as China's economic relations with other countries are developing, "other kinds of income" is listed.

The tax law lists 9 categories of income to be exempt from individual income tax: (a) prizes and awards for scientific, technological or cultural achievements; (b) interest on savings deposits in the state banks and credit co-operatives of the People's Republic of China; (c) welfare benefits, survivors' pensions and relief payments; (d) insurance indemnities; (e) military severance pay, decommission or demobilization pay for cadres and members of the armed forces; (f) severance pay or retirement pay for cadres, staff members and workers; (g) salaries of diplomats in foreign embassies and consulates in China; (h) tax-free incomes as stipulated in international conventions to which China is a party or as stipulated in agreements China has signed; (i) incomes approved as tax-free by the Ministry of Finance of the People's Republic of China.

As regards the income tax rates, they fall into two categories as stipulated in the tax law: progressive rate and proportional rate. A monthly tax is levied on wages and salaries in excess of specific amounts at progressive rates. The seven grades of tax range from 5 per cent at the lowest to 45 per cent at the highest. Compared with other countries, the tax rate are rather low. As to tax on remuneration for personal services, royalties, interests, dividends, bonuses and income from leasing property and other kinds of income, it is levied at a flat rate of 20 per cent for each payment. This rate, too, is low, compared with other countries. The current practice in other countries is to add all these incomes to salaries and wages and levy the income tax on the total at a comparatively high progressive rate.

The method of a fixed quota, fixed rate and allowance has been adopted to simplify the process of calculating the amount of taxable income.

For salaries and wages, the tax law stipulates a monthly fixed allowance of 800 yuan for personal expenses and for supporting one's family. Only that part above 800 yuan shall be taxed, and the total allowance in the whole year comes to 9,600 yuan. This is higher than the standard of other countries in general. Because of the allowance, only a few people have to pay tax and the amount is very small.

In calculating the amount of taxable income from remuneration for personal services, royalties or leasing property, a fixed allowance of 20 per cent is allowed for necessary expenses and only what remains is taxed. Because for most people the incomes from remuneration for personal services or leasing property are small, and a fixed allowance rate for all covers too wide a range for tax payment, it is stipulated that for each single income of less than 4,000 yuan, a fixed allowance of 800 yuan will be allowed for necessary expenses before taxing what remains. This narrows the range for tax payment and makes allowance for those taxpayers with less income but more expenses.

For interests, dividends, bonuses or other kinds of income, the tax law stipulates that the tax shall be levied on the full amount received in each payment. This, too, is a common practice abroad.

Concerning the management of taxation, China has adopted in the main the method of controlling the source for taxation. This means that the paying unit of a taxpayer shall withhold the taxes when making payments to the taxpayer. Taxpayers not covered by this system are required personally to file their income tax returns and pay taxes themselves. Any taxpayer who earns income outside China shall file his tax return and pay the tax by the end of each year.

The tax law stipulates that tax authorities have the right to investigate tax payments. In addition, it stipulates that in dealing with cases of violations such as concealing the amount of income or evading tax or refusing to pay tax, the

tax authorities may impose economic penalties or even affix legal responsibility, depending on the condition of each case.

V. STRENGTHENING FINANCIAL SUPERVISION

The function of supervision is linked with that of the state in organizing the economy. A socialist country must have statistics and broad supervision over the economy in order to organize properly the socialist economy and the economic activities.

Supervision requires various means and finance is one of the most important. There are several reasons why it is able to perform this function.

(a) Finance reflects the whole national economy. On the one hand, economic development determines the financial condition, and on the other hand, the financial arrangement has a significant influence on the development of the economy. Therefore, problems arising in the operation of the whole national economy and the trend of its development are reflected in the state of the financial revenue and expenditure. The role of finance as "an observation post" is very important in macroeconomics.

(b) Finance shows different local conditions. This is because the antenna of finance extends to all sectors of the national economy down to the grass-root levels through budgetary revenue and expenditure, financial management, taxation and supervision over appropriations (loans for capital construction) and this aids the work of synthesis as well as analysis. Finance mirrors not only problems of the whole but local weaknesses as well.

(c) Financial distribution is central to the interests of the state, the enterprise, the collective and the individual. The interests of all four are fundamentally the same, but contradictions exist too. To deal with these contradictions well re-

quires not only legislation but also supervision. Legislation without supervision is futile.

Finance in China, either in the sphere of macroeconomics or microeconomics, can reflect the economic conditions and perform the function of supervision well and in an all-round way. This is because it is based on and closely linked with the state economy, which is the dominant sector of the national economy. It not only controls the greater part of the net income of society, but determines the distribution of the whole national income and runs through the whole production process. Therefore, it can touch the pulse of the whole national economy through the interaction of the links of distribution, production, circulation and consumption. This is not quite the same as the function of finance in nations with private ownership or collective ownership as the main sector of the economy.

Since the founding of the People's Republic, financial departments have been successful in the enforcement of financial and economic disciplines and in performing the function of supervision. But in the late 1950s, some people, influenced by "Left" ideology, regarded as antagonistic the dialectical relations between supervision and service, between legal system and democracy, and between discipline and freedom. They stressed lop-sidedly that finance must promote production and benefit the enterprises. They wanted only service but no supervision, only democracy but no legal system, and only freedom but no discipline. The functions of finance in keeping to the plan and guarding against breaches of financial discipline were vilified as "controlling, checking and suppressing" the workers. In this way, the supervisory function of finance was seriously weakened.

After the "gang of four" was smashed, the question of strengthening the supervisory function of finance was again brought up and financial supervisory agencies suspended for 20 years were reorganized and established. In 1980, in order to check the financial revenue and expenditure of 1979, the

State Council sent 28 working groups to all provinces, municipalities and autonomous regions to help the local party committees and governments with their work.

But at present financial supervision still needs to be further strengthened. This is because financial supervision should not be limited to combating corruption and waste, but should help implement the policy of readjusting, restructuring, consolidating and improving the national economy. Now, some local governments and departments have expanded the scale of capital construction and increased the shortages of financial and material resources by raising the expenditure quota at each level. To get what they need, they even resort to violating financial and economic disciplines. Therefore, it is of particular significance at present to perform the function of financial supervision over the implementation of the policy of readjusting, restructuring, consolidating and improving the national economy and this must be done by following the guiding ideology of acting upon the state plan and carrying on what is possible. Hence, apart from strengthening the supervisory agencies of financial departments, it is necessary to give full play to all functional departments of the financial system.

This means, in the first place, that it is necessary to investigate and supervise, through budget control, the scope, speed and different proportions in the development of the national economy. For the present, in order to readjust the national economy properly, a balance between revenue and expenditure must be first restored. The proportion of accumulation to the national income should be gradually cut down to about 25 per cent from the present 30 per cent and more. In the future, the strength of financial and material resources should be taken into primary consideration before it is decided to add investment in capital construction, increase wages and bonuses and raise the prices for farm products. The principle of doing what is possible should be grasped tightly in the field

of finance to safeguard the steady growth of the national economy.

Second, it is necessary to use the levers of taxation and auditing to calculate and supervise production costs and results in enterprises. For example, through levying the product tax, it will be clear whether the goods produced by an enterprise meet the market demand in variety, quantity and quality; through income tax it can be seen whether the production expenses of an enterprise are reasonable. And when problems are discovered through tax collection, it is imperative to find out the crux of the matter by means of auditing and to point out the way of improving the management of enterprises. During the current reform of economic structure, financial and taxation departments must perform their function of supervision and control still better in order to deal with the tendency to be preoccupied only with local interest while neglecting the general interest. For example, there are the malpractices of making false claims of financial expenditure, spending state revenue without permission, intercepting and retaining revenue in the name of paying back loans, paying less taxes than required, raising or reducing prices in contravention of the state price policy, reducing payments to the state treasury or issuing excessive subsidies and bonuses in violation of state regulations.

Third, it is necessary to use the lever of the long-term credit bank (People's Construction Bank of China) to get overall statistics concerning the reproduction of fixed assets and supervise it. For quite a long time, attention was paid only to the scale of investment in capital construction to the neglect of the effect of investment and the rational proportions between investments. This was one of the main reasons why the national economy was out of balance. From now on, in supplying funds for capital construction and funds for developing the potential of existing enterprises, replacing their equipment and carrying out their technical transformation, the state allocations will be replaced gradually by bank loans

under the unified control of the People's Construction Bank of China. This will create favourable conditions for supervising the effect of investment in capital construction and controlling the scale of construction.

Fourth, it is necessary to strengthen the auditing of financial affairs and the supervising of them in the fields of administration, culture and education and national defence so as to put consumption under control and increase the economic results from limited financial resources.

When supervision by functional departments is combined with that by specialized departments and the masses are mobilized, then financial supervision will penetrate deep into every sphere of production and construction. This can be achieved under the socialist system of China.

Apart from supervision while work is going on as mentioned above, it is also necessary to combine supervision in advance with subsequent supervision.

Supervision in advance means, first, to do propaganda work and, next, to promote the work of forecasting, including the forecast of budgetary receipts and expenses and financial receipts and expenses. Finally, it means to help enterprises work out several plans after assorting and analysing the information collected, and select the best.

Supervision in advance is very important for increasing production and practising economy and preventing wastage in manpower, financial and material resources. It is particularly so for achieving the overall balance and proportionate development of the national economy.

However, subsequent supervision is also necessary. This is to examine and analyse the final accounts of different units after funds have been distributed. The aim is to discover problems, stop up loopholes and guard against the recurrence of similar problems in the future.

Chapter IX
POPULATION

by Liu Zheng

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CHINA'S population has its own characteristics. First, China is the most populous country in the world. By the end of 1980, China's population had exceeded 1,000 million, (including the population of Taiwan Province), constituting 22 per cent of the world's people. In other words, the Chinese account for one out of every 4.4 persons on earth. Second, over 80 per cent of China's population lives in rural areas, a proportion which is not only higher than that in the developed nations but also higher than that in many developing countries. Solutions for China's population problems depend in a large measure on solving the problems of the 800 million rural people. Third, although China's economy has made much progress since Liberation in 1949, her productive forces remain backward because of the long history of semi-feudal, semi-colonial society in old China. This condition cannot be changed in a short time. Our economic development has been far from satisfactory also because of the ten-year "cultural revolution" and mistakes in our guidelines. So a poor foundation is still the basic feature of our economy. The huge population and poor economic foundation are summed up in the low per-capita national income, which was only 372 yuan in 1980. A correct solution to China's population problems is of vital importance to her economic construction, social development and socialist modernization.

I. POPULATION PROBLEMS IN CHINA

1. FAST POPULATION GROWTH SINCE LIBERATION

China's population stood at 412 million at the beginning of the Opium War in 1840. By 1949 the population had grown

to a little over 540 million. This was an increment of nearly 130 million in 109 years, representing an annual growth of 2.6 per thousand. In the 27 years between 1949 and 1976, the population soared from 541.67 million to 932.67 million, up by more than 390 million. The total in 1976 was 72.2 per cent more than that in 1949, representing an annual growth of 20 per thousand, which was double the 1936 rate of 10 per thousand, or 7.7 times the average rate during the 109 years between 1840 and 1949.

The fast population increase after Liberation was caused by a drastic drop in the death rate and the failure to control the birth rate. China's death rate came down from 20 per thousand before 1949 to anywhere between 10 and 18 per thousand in the 1950s. It fell further to 8-11 per thousand in the 1960s (except in the difficult period of 1958-61), and 6-7 per thousand in the 1970s. The fall in the infant mortality rate was even more drastic, from about 200 per thousand before 1949 to 138.5 per thousand in 1954 and 70.9 per thousand in 1957. In the 1970s, the infant mortality rate stood at 11-13 per thousand in the cities and at about 30 per thousand in the rural areas.

The lower death rate and the longer life expectancy came from the rapid expansion of medical and health care, control and elimination of serious infectious diseases and improvements in the life of the people, including their nutrition and health. However, the birth rate did not come down correspondingly in this period. It remained as high as 30 per thousand or more in the years before 1971 (except 1958-61), with a peak of 43.6 per thousand in 1963. In 1972, it began to drop below 30 per thousand and by 1976 it was held at a little over 20 per thousand.

The main causes of the high birth rates continuing over a long time are the following.

(1) The overwhelming majority of our population lives in rural areas. Few modern techniques are applied in agriculture which is mainly done by hand. People can take part in

farm labour without having much education or scientific knowledge. So the reproduction cycle of labour power is short and the cost of training low. The cost of bringing up a child from the time of pregnancy to 16 years of age is only 1,600 yuan in rural areas, one-third of the cost in small towns (4,800 yuan) or 23.2 per cent of that in big cities (6,900 yuan). Generally speaking, the lower the cost of rearing a child, the higher the birth rate, and vice versa. This is illustrated by the fact that the birth rate in China's rural areas in 1975 was 0.89 per cent higher than that in the cities. Since agriculture is mainly done by hand, the income of a peasant family depends heavily on the number and strength of the labourers. These are the major economic causes of the peasants having more children.

(2) China is an ancient country with at least 2,000 years under feudalism. Traditional views on reproduction were derived from the natural economy. Well known Chinese sayings include "the earlier one has a son, the better", "of the three failures in filial duty the greatest one is having no boy born to a family for succession" and "more sons mean greater blessings". Such beliefs do not die easily. They exert a profound influence on the peasants. So, early marriage and many births are still very much in vogue among them.

(3) Levels of scientific knowledge among the people are low. Ignorance of reproductive physiology, insufficient popularization of contraceptive methods and shortage of contraceptives also affect people's efforts in birth control.

(4) For many years our demographic theories one-sidedly stressed continued population growth as a socialist law of development, approving of our large population as a definite advantage. The correct principle of population control was criticized at one time. All this has impeded our efforts to advocate and encourage late marriage and birth control.

The natural population growth rates in selected years in the 1950s, 1960s and 1970s are as follows:

| Year | 1950 | 1952 | 1957 | 1962 | 1965 | 1966 | 1970 | 1976 |
|--------------------------|------|------|-------|-------|-------|-------|-------|-------|
| Growth rate per thousand | 19 | 20 | 23.23 | 27.14 | 28.51 | 26.34 | 25.95 | 12.72 |

The average annual growth rate between 1950 and 1976 was 20 per thousand, higher than the world average of 19 per thousand for the same period, and far greater than that of the developed nations (11 per thousand between 1950 and 1975).

Human beings are at once producers and consumers. We must not see human beings only as consumers while neglecting or forgetting the fact that people are also producers. It is wrong to emphasize only that more people means more consumption and that a big population presents a major obstacle to economic development. On the other hand, we must not see human beings only as producers while neglecting or forgetting the fact that humans are consumers as well. Especially when labour productivity is still low, the aspect of human beings as consumers is more conspicuous. It is also wrong to take the view that the more people we have the better, and that a larger population means greater production and accumulation.

The size of a population, its density and its growth rate are by no means the decisive factors for socio-economic progress, but they do act to speed up or retard it. Generally speaking, when a country or region has enough means and objects of labour but insufficient labour power, a bigger population and a faster population growth will promote the development of the social productive forces.

If the growth of a country's population, whatever its density, is negative (i.e., its new births cannot make up for its deaths) and if this trend is allowed to go on for a long time,

it will certainly threaten the nation's survival and harm the growth of its social productive forces. In such circumstances, it is advisable to increase the nation's population at a proper rate. If a country is economically backward and has a dense population with a fast growth rate, then continued increase in population will certainly bring many obstacles to socio-economic development. Population control under these conditions will surely facilitate development. Such is the case with China.

What difficulties does the fast population growth in China bring to her socio-economic development?

(1) There is greater difficulty in providing jobs. For many years China's economy has experienced ups and downs in the course of development. Especially during the "cultural revolution", our national economy suffered tremendous losses. As a result, production inched forward sluggishly, the setup of production was irrational, and the ability to provide jobs for the able-bodied people was limited. At the same time, our population has increased too fast since Liberation. Nearly 20 million people entered the work force every year in the 1970s; more than three million of these were in the cities. This huge number of people seeking employment adds to our difficulties in providing jobs.

In the cities, each industrial worker requires an average of 10,000 yuan's worth of technical equipment. During the Fourth Five-Year Plan period, fixed assets increased at an annual rate of 20 billion yuan. Even if all these newly added assets had been used to absorb new workers, leaving nothing for equipment renewal, industry could have taken in only two million people per year. This would still have left a considerable number of young people jobless. By 1976, urban youths waiting for employment numbered upwards of 10 million.

The same problem exists in the rural areas, though it does not present itself directly as unemployment as it does in the

cities. It is manifested in inefficient use of labour power and very low agricultural productivity.

Our rural work force grew from 200 million in the 1950s to 300 million in the 1970s, and the cultivated land per agricultural labourer declined from eight *mu* to five *mu*. Reclaimable land in China is estimated at 500 million *mu*, and reclamation requires large investments. In the future, construction of factories, railways and water conservancy projects will still occupy increasing areas of arable land. There will be a sharpening contradiction between the fast expanding work force in the rural areas and the limited cultivable land. The big natural growth of the rural work force and the large pool of labour saved through the modernization of agriculture will combine to pose a major problem for the state — the problem of how to deal with surplus labour in the rural areas.

Notable changes have also taken place in two other factors related to human resources. One is the vast number of women going beyond the confines of their homes and taking part in social labour. This in fact has doubled our human resources. Women have become part of the labour force society is obliged to organize, thus increasing the pressure on job procurement. The second factor is that people now have longer working lives, thanks to the sharp fall in the death rate and the big increase in life expectancy. The average working life has been extended to some 40 years as against 20-odd years before Liberation. This delays the natural renewal of the country's labour power and also adds to the difficulty of providing jobs for people entering the labour force.

(2) The improvement of the people's standard of living is impeded. Human beings as producers are only a part of the entire population, but people as consumers make up the whole population. Socialism requires gradual betterment of the life of the people on the basis of increased production. After Liberation much growth was registered in the production of grain, cotton, light industrial goods, and in the construction of new housing. Grain output rose from 163.9 million tons in 1952 to

284.5 million tons in 1975, and cotton production from 1.304 million tons to 2.381 million tons. But the per-capita amount of grain and cotton produced went up only slightly, from 288 kilogrammes in 1952 to 312 kilogrammes in 1975 and from 2.3 kilogrammes to 2.6 kilogrammes respectively. In a few years, there were even some decreases. An important cause of the short supply of grain, cotton, textiles and other light industrial goods for many years has been rapid population growth, apart from sluggish increases in production caused by mistakes in the guidelines for our economic work.

The fast population growth's impact on the people's life is also manifested in the slow increase of per-capita annual income and of the consumption fund. Total national income rose from 58.9 billion yuan in 1952 to 250.3 billion in 1975, increased by 3.25 times. But the per-capita income increased from 104 yuan to 274 yuan, thus rising by only 163 per cent (without allowing for the factor of rising prices). About 53.1 per cent of the finances added to the consumption fund between 1952 and 1975 was used to meet the needs of new births while the remaining 46.9 per cent was used to improve the life of the older population. A considerable share of the gains in production was used up by the increase in population.

In the cities, the fast population increase kept a rising pressure on housing, medical facilities, services, public transport, cultural and recreational facilities. However, investment in the production of consumer goods decreased year after year under the concept that production must precede livelihood. During the First Five-Year Plan period, the production of consumer goods accounted for 28.3 per cent of the total investment, fairly adequate to satisfy the needs of the people. Investment in consumer goods production came down to 13.2 per cent during the Second Five-Year Plan period, rose to 17 per cent during the readjustment period of 1963-65, and again dropped to 10.6 per cent in 1966-70 and 13.4 per cent in 1971-75. This investment was too small in 20 out of 27 years to meet the ever-growing needs of the people. This and the big

absolute increase in the urban population led to a serious shortage of housing, public utilities and educational facilities. In the rural areas where production grew at a slow pace for many years, the population increased at a faster rate than in the cities. A considerable part of the fruit of the peasants' work each year was swallowed up by the newly added population, so that their life was not improved as much as it should have been if population had not grown so fast.

(3) The country's economic accumulation is adversely affected. The building of socialism requires an adequate sum of construction funds because it is imperative to enlarge production of material values and expand educational, physical cultural and health undertakings for training and bringing up people so that they can develop morally, intellectually and physically. And these funds come mainly from internal sources through self-reliance. But the overly fast growth of the population since 1949 requires that a big portion of the national income must be earmarked for consumption needs. This cannot but impede the increase of accumulation.

In 1978, the people born after 1949 numbered more than 600 million, accounting for 63.4 per cent of the total that year. Calculated on the basis of the living standards of the Chinese people in 1978, bringing up a child from the time of pregnancy to 16 years of age costs an average of 2,200 yuan (30 per cent comes from the state and 70 per cent from the family). Between 1949 and 1978, the total costs reached 1,320 billion yuan (2,200 yuan times 600 million), about half the aggregate consumption funds for 1952-78. Clearly, a great portion of our goods and services was consumed by the post-Liberation generation, since our economy is rather backward and labour productivity low.

If we had followed an appropriate population control policy in the 1950s, our population would have been much smaller than it is now. Far from having interfered with the renewal of the labour force and the continuity of the national

populace, it would have saved a huge sum of funds for national construction and the improvement of the life of the people.

2. THE QUALITY OF THE POPULATION

The quantity and quality of a population are two inseparable aspects of population growth. Under any mode of social production, a population of a certain size is inevitably composed of individuals with given qualities. In China, population problems are not only manifested in the contradiction between the huge size and fast growth of the population on the one hand and the effort to realize socialist modernization on the other. The problems also involve the quality of the population which falls short of the requirements for socialist modernization.

Population is a complex whole with multiple indicators. So its quality can be studied from various angles — biology, scientific and cultural level, reproduction of labour force, for example. Production and reproduction of material values is a major basis for the existence and development of human society. Therefore it is of great importance to study the qualities of population in the light of the demands the increasing production of material values has made on the labour force.

Generally speaking, the quality of a population is often manifested in the following three aspects. One aspect is physical constitution which is influenced by its natural basis, physiology, and also by socio-economic conditions since they affect the healthy growth of the human body. A second aspect involves science and culture. With the growth of the social productive forces, scientific and cultural level is becoming increasingly important in the quality of a population. The growth of modern production techniques requires that labourers should not only be able to control the means of labour but should also acquire certain scientific and cultural knowledge. Otherwise, modern production techniques cannot be

brought into full play. The third important factor is labour skill, a yardstick for measuring the proficiency of the labourers engaged in productive labour. High or low skill directly determines productivity. The productive forces in old China were extremely backward, and the people lived in dire poverty. So the physical constitution and scientific and cultural level of the people were rather low, and there was a qualitative and quantitative shortage of skilled workers and personnel versed in modern science and technology.

Since Liberation, there has been a marked improvement in the quality of the population thanks to achievements in economic construction, betterment of the people's life and progress in medical, health and educational undertakings. Improved physical constitution finds expression in the fall of the death rate and infant mortality rate and the longer life span. Higher scientific and cultural levels are manifested in the drastic reduction in illiteracy. Before Liberation over 80 per cent of the population was illiterate; now the percentage is much smaller. There are rapidly increasing numbers of people who receive college, secondary or primary education. The number of skilled labourers and personnel with a good command of modern science and technology is fast increasing, too.

Nevertheless, at a time when the country has limited financial resources and a big sum of funds has to be used to maintain the subsistence of the recently added population, it is impossible to devote more funds to expansion of education. Thus, the huge size of population and its low quality present an acute problem in population development.

The low quality of our population is evident mainly in the following aspects.

(1) A considerable number of children suffer from congenital or hereditary diseases. A survey made in Fusuijing Street, Beijing, showed that of the 82,916 people on the street, 706, or 8.51 per thousand were mentally retarded, disabled or deformed. Victims of congenital dementia, diseases and deformity numbered 279, 3.36 per thousand of the population

sample or 39.5 per cent of the invalid cases. Another survey was made of 11,700 children under 14 in 16 streets and communes in Harbin, Heilongjiang Province. About 2 per cent of the children suffered from congenital diseases. The percentage may well be higher in rural areas. Calculated on this basis, six to seven million children under 14 are victims of congenital diseases in China as a whole. Rural people make up over 80 per cent of our population, and the vast rural areas are not developed economically and culturally. There is a certain percentage of marriages between close relations. And the rate of hereditary endemics is high. This is an important factor affecting China's population quality.

(2) There are only a small number of scientists, workers and peasants mastering modern scientific technology. People are wont to judge human resources by the size of the labour force. Numerically, China's human resources are to her advantage. But, qualitatively, they prove a disadvantage. As a result of the serious shortage of people who have received professional training, many professional posts are yet to be filled although there is a huge pool of labour. This impedes the organization of employment and the raising of labour productivity. Technical vocational education is underdeveloped. Before the "cultural revolution", there was a large number of secondary technical schools and vocational schools. But almost all of them were disbanded during the "revolution". This seriously impairs the training of professionals and skilled workers and at the same time adds to difficulties in providing jobs.

(3) The scientific and cultural level is low. Since 1949, China's education has expanded rapidly, and scientific and cultural levels have been raised greatly. But China's education, still undeveloped, suffered very much for many years owing to ups and downs in economic construction and failure to attach importance to the development of education and training for scientists and technicians and skilled workers. There were, in particular, the closure of colleges and univer-

sities for five years and a sharp decline in the quality of primary and secondary school education during the "cultural revolution".

The low scientific and cultural level of the population finds expression mainly in the following facts.

(a) China's illiterates are estimated to exceed a hundred million.

(b) Primary and secondary education is not yet universal. In 1980, only 93 per cent of primary-school-age children were in school. Besides, a number of elementary school pupils dropped out without finishing their education. Only 75.5 per cent of primary school graduates continued to study in the junior middle schools, and 43.1 per cent of those finishing junior middle schools were able to advance to the senior middle schools or technical schools.

(c) The number of people receiving college education is even smaller. In 1980, less than 5 per cent of middle school graduates were admitted into colleges and universities. Our college students in 1980 numbered 1.144 million, averaging 11.6 per 10,000 people. (But the figure was 523.6 per 10,000 in the United States in 1975, 205.2 in Japan in 1976, and 185 in Yugoslavia in 1975.) This is a far cry from what is needed for the labour force of socialized mass production based on modern science and technology. Modernized, automatic production is increasingly combining mental labour with manual labour. The low quality of our present population makes it impossible to provide the various branches of the national economy with a labour force that has undergone strict training and is suited to the needs of modernization. Therefore it is a pressing problem in China to raise the quality of the population.

To effect a quick improvement in this respect, it is necessary to adopt various effective and practicable measures.

(1) The population increase must be controlled effectively in a planned way. In this way, what the newly added population consumes can be reduced so as to raise the overall

population quality. This means spending more on education to raise the educational level of the people, or more on health work to improve the physique of the people. At the same time, as the increase of population is brought under control, there will be fewer school-age children in the future. So even when the total spending on education is not increased, there will be more money for the education of each student. This can also help raise the quality of education.

(2) Eugenics should be advocated. The state, families and parents all wish to have healthy, intelligent children and to avoid as far as possible producing children with congenital diseases. Especially when we are encouraging one child for every couple, it is of particular importance to advocate eugenics. Now, eugenics is included in the new Marriage Law, and many cities have set up consultancy services on heredity, offering guidance to newly married couples.

(3) It is necessary to improve child care. Many cases of idiocy, diseases and deformity are related not to congenital factors but rather to postnatal ones, especially certain diseases contracted in early childhood. Childhood is also an important period for physical development. Health care, nutrition and nursery education in this period exert a great influence on physical and intellectual development in later life. We must tackle the quality of the population from infancy onward.

(4) Education must be developed energetically. Judging from the quality of our population as a whole, the people disabled by congenital diseases are only a small percentage, while the problems arising from lack of scientific and cultural knowledge are widespread. One key to improving population quality is to make great efforts to develop education and raise the general scientific and cultural level of the Chinese nation.

To sum up, problems consist mainly of contradictions between the huge size, fast growth and low quality of China's

population on the one hand and the requirements of socialist modernization and economic development on the other.

Since 1976, some changes have taken place in this respect. Our economy has shown marked improvements thanks to efforts to rectify mistakes in our past work. Much growth has been registered in the production of farm and sideline products, textiles and other light industrial goods that are closely related to the life of the people. Further efforts have been made to control the increase in population. Per-capita income rose from 274 yuan in 1975 to 372 yuan in 1980. At the same time, the state has made great efforts to provide jobs for people through various channels. About 29 million new jobs were created for urban residents in the years between 1977 and 1980.

Nevertheless, the basic disharmony between population and economic development still remains unchanged. At present, there are only two approaches to solving this problem. One is to push the economy forward rapidly, implement the principles of readjustment, restructuring, consolidation and improvement so that our economy will advance in a steady and proportionate way. This would create a better material basis for solving the employment problem, raising the people's standard of living and increasing state accumulation, as well as for controlling the size of the population and raising its quality. The other approach is to continue to contain the size of the population and raise its quality so that the growth of the population will be in keeping with the development of the national economy.

II. PROGRESS IN POPULATION CONTROL

As early as the 1950s, the Central Committee of the Chinese Communist Party proposed family planning and population control, and adopted measures to this end. The noted economist Ma Yinchu published his important article "New

Population Theory", in which he made a theoretical analysis of the necessity of controlling population growth under socialism. But beginning in 1958, a one-sided theory arose, saying the more people the better. Ma's correct position came under criticism. This greatly affected the population control both in theory and in practice.

In the winter of 1962 the Central Committee of the Chinese Communist Party and the State Council issued a directive about strengthening the work on family planning. A family planning office was set up under the State Council in 1964. But it was not long before the office was disbanded under the impact of the "cultural revolution". It was not reinstituted until 1973. Since the 1970s, China has made notable achievements in the control of population increase, centred on a rapid decline in the natural growth rate.

The rate dropped from 25.95 per thousand in 1970 to 12.72 per thousand in 1976. The number of new births also decreased year after year: 27.36 million in 1970, 25.67 million in 1971, 25.66 million in 1972, 24.63 million in 1973, 22.35 million in 1974, 21.09 million in 1975, and 18.54 million in 1976. There were 26.22 million fewer people in 1976 than there would have been if the 1970 annual number of new births had continued through 1976. Such a sharp fall in population growth and such drastic cuts in new births are rarely to be seen in world population history.

A drop or rise in the natural population growth rate is determined by two factors: birth rate and death rate. By 1970 China's death rate had already come down to 7.64 per thousand, among the world's lowest. The death rate remained at about this level in subsequent years: 7.34 per thousand in 1971, 7.65 per thousand in 1972, 7.08 per thousand in 1973 . . . and 7.29 per thousand in 1976. The 1976 figure was 0.35 per thousand less than in 1970.

To lower the natural population growth rate, it is necessary that the birth rate should drop faster than the death rate. China's birth rate declined from 33.59 per thousand in

1970 gradually to 20.01 per thousand in 1976, a drop of 13.58 per thousand in six years. When the death rate and birth rate were compared, the natural growth rate came down by 13.23 per thousand. After 1976, the downward trend continued as shown in the table:

| Year | 1976 | 1977 | 1978 | 1979 |
|------------------------------------|-------|-------|-------|-------|
| Natural growth rate (per thousand) | 12.72 | 12.12 | 12.05 | 11.66 |

The drop in the growth rate after 1976 was marked by two features. (a) The four years between 1976 and 1979 saw a fall of 1.06 per thousand (from 12.72 per thousand in 1976 down to 11.66 per thousand in 1979), averaging 0.353 per thousand a year. But the drop between 1970 and 1976 was 13.23 per thousand (from 25.95 per thousand in 1970 down to 12.72 per thousand in 1976), averaging 2.2 per thousand a year. The later rate of drop was slower. (b) A downward trend was still maintained year after year although the rate was slowing down.

The first feature is in conformity with the laws governing population development. In the first place, when we started promoting family planning, the population growth was very high because of the widespread custom of early marriage, early child bearing, short intervals between births, and many births. As a result of encouraging "late, sparse, few" — late marriage for young people, a spacing of three to four years between two births, and each couple having two children at most — the birth rate came down by a big margin. But when it had dropped to a certain level and when "late, sparse, few" was generally accepted, the potentials for further decline were smaller, and it was more difficult to lower the birth rate further. By 1976, China's birth rate had already

came down to 20.01 per thousand, close to the 1965 levels attained by the United States and Canada, or nearly half that in developing countries.

Second, the drop in the birth rate and natural growth rate is determined not only by the fertility rate of women in the population, but also by the number of women of child-bearing age. The annual number of new births is a result of these two factors. The factors have different functions in population control. In a given period (say 20 years), the number of women of child-bearing age is definite. For instance, women aged 0-20 in 1976 formed the group of people who will gradually enter the age of marriage and child bearing in the next 20 years. This number of people is an objective reality and cannot be altered.

But in given conditions, we may control the fertility rate. When the fertility rate is brought under control to a certain degree, the number of women of child-bearing age may exert a greater impact on the change in the birth rate. If females marry and bear children at the age of 23, then the women reaching marriage age in 1977 and after were girls born in 1954, 1955, 1956, 1957 . . . — a boom period in human reproduction. This was a factor that might have contributed to a higher birth rate in the late 1970s. But the birth rates after 1977 showed that, although more women entered child-bearing age and the fertility rate of the women had already been brought down to a lower level, the birth rate was made to drop, though slowly. The figures were 20.01 per thousand in 1976, 19.03 per thousand in 1977, 18.34 per thousand in 1978, and 17.90 per thousand in 1979.

Though the death rate also continued to fall, our natural population growth rate still came down year after year: 12.12 per thousand in 1977, 12.05 per thousand in 1978, and 11.66 per thousand in 1979. There were 29.5 million fewer births in the three years of 1977-79 than there would have been if the annual number of new births in 1970 had been maintained. If the reduced births between 1971 and 1976 are

added, the figure becomes 56 million. This is an impressive sum, which shows that gratifying results were obtained in family planning and population control in the years after 1977, despite difficulties.

Our successes in family planning since the 1970s can be attributed to the following factors.

(1) Governments at all levels began to attach great importance to family planning. Government functionaries previously thought family planning a trivial matter unworthy of their attention. But they have learned from practice over the past 20 years that because China's productivity was low and her economy backward, the rapid increase in population worsened the contradiction between population growth and economic development. Especially after 1966, anarchic child bearing and blind population increase grew to more serious proportions. In the six-year period of 1966-71, the average annual rate of population growth was 26 per thousand, with a net increase of more than 120 million and an average annual increase of over 20.4 million. The net increase per year is almost equal to the total population of a medium-sized country. This created difficulties for our economic development.

Therefore governments at all levels placed family planning and population control on their agendas, strengthened leadership and paid close attention to work in this field. Courses in demography were organized in various localities. Through theoretical studies, people came to know the necessity and possibility of population control, the general and specific policies of family planning, and the importance and necessity of grasping both the production of material values and the production of human beings.

(2) Family planning was given wide publicity. Since the 1970s, an energetic publicity and education campaign has been mounted.

(a) Efforts were made to explain among the masses the great significance of practising family planning and popula-

tion control for the realization of socialist modernization. The difficulties the rapid population growth caused to national construction and economic development were used to drive home the fact that the control of population growth was imperative and served the fundamental interests of modernization and the long-term interests of the Chinese nation.

(b) As a result of wide publicity about the correlation between family planning and women's liberation, women have become more conscious in practising family planning. The period of life when women enjoy their greatest physical strength and energies is not only the period of greatest fertility, but also the best time for social labour. If they give birth to many children and at short intervals, women will certainly be tied up with heavy household chores and will not be able to take part in social labour with vigour and verve.

A survey in a county in Sichuan showed that the number of days rural women can spend in social labour is inversely proportional to the number of children they have. That is, the more children they have, the fewer days they spend in labour. A woman having one child could work for about 300 days per year, a woman with two children, about 250 days, and a woman having three children, about 100 days. A survey made in Nanguan County, Hebei Province, showed that before family planning was introduced about 60 per cent of the able-bodied women took part in productive labour. Now the rate has risen to over 90 per cent because most women have fewer children and less household chores. This indicates that family planning creates better conditions for women to participate in social labour and helps raise their social and economic status.

In publicity work, concrete examples were used to show the harm that early marriage, early child bearing, short spacing between births, and many births may do to mothers and children. Such examples can also drive home the bene-

fits of late marriage and fewer births for the health of both mothers and children.

(c) Financial comparisons were made to illustrate how both the collective and the individual can benefit from family planning. In many counties, by giving accounts of production, income and population growth, the production brigades and teams have convinced the commune members that further population increase would have unfavourable effects on the increase of crop yields and per-capita income and on keeping the per-capita share of arable land from being reduced. Consequently, a considerable number of the successes achieved in the collective economy could be offset by population increases, so that the collective could hardly enlarge its accumulation fund and become prosperous.

As far as a family is concerned, fewer children would lighten financial burden, thus bringing about a higher personal income and a higher living standard for the family. According to a survey made in a commune in Shifang County, Sichuan, a family of three members or less (usually two labourers and one child) has an average income of 400 yuan per capita and an average individual share of 400 kilogrammes of grain. In comparison, a family of more than five members (usually two labourers, two children and one elderly person) has only about 200 yuan and 350 kilogrammes of grain per capita. Among the 105 families of this commune who are in debt, 86.6 per cent have more than three children. These pertinent examples help solve ideological problems among the masses concerning desires for more children.

Family planning should be publicized as an important matter of transforming old social traditions, including old ideas, customs and habits. To do away with the old custom of early marriage, we gave wide publicity to the fact that early marriage, early child bearing and frequent births prevent young people from devoting their energies to worthwhile pursuits. They are less able to study general knowledge, science and technology, to dedicate the prime of their lives to

production and work, and to contribute greatly to the country. Early marriage and early child-bearing distracts the energies of young couples, impedes their physical and intellectual development, and adds to the financial burdens of families and of the state. By practising late marriage and family planning, the young people can devote all their vigour and verve to work, to the development of production, science and technology.

"Males are better than females" is a feudal concept handed down through many centuries. According to this concept, males are the only bearers of continuity for the ancestral line, the only source of prosperity for the family or clan, and the only ones able to support the parents when they are old. These ideas reflect small-peasant mentality on the question of child bearing. Under socialism, males and females are equal and are both needed for the growth of the socialist economy and the production of human beings. To overcome the old idea of "males are better than females" and "having no sons means having no offspring", we must push forward our socialist economy and gradually eliminate the economic conditions that engender such ideas. We must also publicize widely the equality between men and women and the outlook that male and female children are equal.

It should be pointed out that since 1978, research into population theories has made great headway, thanks to discussions about practice being the sole criterion for judging the truth. The necessity and importance of harmonizing the production of human beings with the production of material values has been proved in both theory and practice. This has raised the publicity of population theories and the ideological work in family planning to new heights.

(3) We attached great importance to controlling population growth in a planned way and to grasping both the production of human beings and the production of material values. For many years, in planning the national economy, only the increase in total output was considered while the

average output per person was ignored. Only the number of labourers that could possibly be absorbed by capital construction investment was taken into account, while little attention was paid to how many labourers there were in society. There was no plan for population increase, so that the production of material values was divorced from the production of human beings.

Engels made the prediction long ago: "If communist society should one day be compelled to regulate the production of human beings, as it regulates the production of goods, then it and it alone will be able to do this without any difficulty." (From a letter by Frederick Engels to Karl Kautsky on February 1, 1881) We failed to have a deep understanding of this. So, for a long time, our population increase remained in an anarchic state although our production of material values proceeded under the plan for the national economic development. This gave rise to the contradiction between the planned production of material values and the unplanned production of people.

In view of this, Comrade Zhou Enlai said in June 1970: "Family planning falls within the scope of state planning. It is a question of planning, not of health. There is no point in drawing up state plans if one cannot even plan the growth of the population." We began to grasp family planning with determination in the 1970s and to bring population growth under control through planning. Beginning in 1971, while drawing up the Fourth Five-Year Plan and yearly plans, we planned not only the production of material values but also population growth.

In China we have both long-term and short-term programmes for planning population growth. By long-term programmes we mean five- to ten-year plans or even plans for longer periods. The short-term programmes refer to annual plans. The long-term programme sets the orientation and targets for population control, whereas the short-term programme guarantees the realization of the long-term plan.

At the same time, China also has national and regional population programmes. The national programme sets the overall requirements for planned control of the population growth. Among its aims are effecting a gradual fall in the natural population growth rate, keeping the total population within a limit, and bringing the population increase into correspondence with the growth of the production of material values. Regional programmes refer to plans worked out by the provinces, municipalities, autonomous regions and counties. These programmes set forth population control targets in light of local conditions and thus ensure the realization of the national population programme. These control targets are an important basis for arranging production and construction and developing all undertakings in various localities, as well as establishing the goals to be attained in family planning.

In formulating a population programme, there are, as a rule, three indicators of the population control target: (a) fertility rate, (b) natural population growth rate, and (c) total population. Fertility rate reflects the fertility of women of child-bearing age in a given period, usually expressed as the number of children born per thousand women or the number of children born to a woman in her lifetime. To control population growth is, in fact, to control the fertility rate in a planned way. That is to say, the fertility rate can be regulated through planning. Once the fertility rate is set, the birth rate is determined accordingly.

Then, by comparing the present death rate with the birth rate, we can calculate the natural population growth rate. The purpose of regulating the natural population growth in a planned way as one of the population control targets is to keep the total population within a certain limit. If controlling fertility and natural growth is the main means, then limiting the total population is the principal end of our population programmes. Therefore a population programme should take into account the natural population growth rate and the total population as well as the fertility rate. Control

over the latter rate is required to limit the first two items. Targets for lowering the natural population growth rate were set in the five-year plans both for 1971-75 and 1976-80.

To work out a good population programme, it is necessary to take into consideration both the state's demand for population control and China's actual conditions. Considering the state's demand for population control means to formulate the population programme in accordance with the requirements of the state family planning policy. These requirements include late marriage, longer interval between births, and fewer births. Considering China's actual conditions means to take into account a number of factors. These include different control targets for the Han nationality and the minority nationalities, existing differences between the birth rates in cities and in rural areas, the different age and sex compositions in various localities, the different levels of family planning work in various places.

In China as a whole, before 1975, although a target for population control was set, forecasts of the long-term trends of population development were lacking. The first forecast of the trend of China's population development in the next 50 years was made in 1975 on the basis of the 1964 census plus demographic data collected by some provinces and municipalities — the first such long-term forecast since the 1970s. A second forecast was made in 1979. Thus we have accumulated preliminary experience in making population forecasts and setting targets for population programmes.

(4) Legislative and economic measures were adopted. Article 53 of the Constitution of the People's Republic of China adopted in March 1978 states: "The state advocates and encourages family planning." This is the first time since the founding of the People's Republic that family planning was made part of the fundamental law of the country. The new Marriage Law adopted in 1980 also states the need to "practise family planning" and sets forth specific requirements and stipulations to this end:

(a) Article 12 reads: "Husband and wife are in duty bound to practise family planning."

(b) The marriage age is set later than it was in the earlier marriage law. Instead of being fixed at 20 for men and 18 for women as in the previous law, it is now set at 22 for men and 20 for women in the new law. No one under these ages is allowed to get married. At the same time, the law also says: "Late marriage and late childbirth should be encouraged."

(c) It is stipulated in the new Marriage Law: "After a marriage has been registered, the woman may become a member of the man's family, or the man may become a member of the woman's family, according to the agreed wishes of the two parties." This embodies the idea that the man should be free to become a member of the woman's family, for traditionally the woman usually joined the man's family in China. This stipulation is good both for the guarantee of freedom in marriage and for the practice of family planning.

(d) In order to avoid the birth of mentally retarded children, idiots or children with hereditary diseases due to marriage of close relations or parents with hereditary diseases, Article 6 of the new Marriage Law stipulates: "Marriage is not permitted in any of the following circumstances: i) where the man and woman are lineal relatives by blood or collateral relatives by blood (up to the third degree of relationship); and ii) where one party is suffering from leprosy, a cure not having been effected, or from any other disease which is regarded by medical science as rendering a person unfit for marriage."

Alongside these national legislative measures, various provinces, municipalities and autonomous regions have abrogated a number of socio-economic measures which were unfavourable to the practice of family planning. They have also gradually adopted new socio-economic measures to facilitate it. These will be discussed in detail in section IV dealing with the population policy.

(5) Strengthening technical guidance in family planning and providing contraceptives efficiently were the main material guarantees of the success of population control programmes. As regards contraceptive methods, we advocated comprehensive measures in line with individual conditions. That is, each couple, in accordance with their own wishes and physical conditions, should decide to adopt the kind of contraceptive method which will give the best effects. In cases of failure due to carelessness, induced abortion can be performed. With the popularization of scientific contraceptive methods and the increased supply of contraceptives, the rate of induced abortion has declined. Male or female sterilization can be performed for couples who have many children if they request it.

All contraceptive supplies are free of charge, and so are induced abortions and sterilizations. Moreover, the government has introduced a system of giving a certain number of days' leave with full pay of wages or work points to people undergoing induced abortion or sterilization. For the purpose of strengthening technical guidance in contraception and family planning, health departments are staffed with well-trained medical personnel. Some have performed 10,000 operations without accident.

(6) Family planning organizations were set up. The Family Planning Office of the State Council resumed work in 1973. The State Family Planning Commission was established in 1980. Family planning organizations have been set up within governments at various levels (province, municipality, autonomous region and county). Full-time or part-time family planning personnel in communes and neighbourhoods form contingents of enthusiastic workers. They are in charge of family planning publicity, and population planning, surveys and studies.

Family planning workers reach grass-roots units, where they rely heavily on family planning cadres and enthusiasts among the masses in neighbourhoods, factories, workshops, government offices, schools, communes, production brigades

and teams. They patiently and meticulously explain to fertile couples and elder family members the merits of family planning. They also make investigations among the masses, which provide the government with data for the formulation of population policies. They have carried out necessary population surveys and forecasts so that population programmes will have reliable statistical foundations. In addition, they have done a great deal of organizational work for the implementation of government population programmes.

III. CHINA'S PRESENT POPULATION AND FUTURE CONTROL TARGETS

Given the notable successes in family planning and population control so far, the targets for future population control in China have aroused widespread interest. In considering future control targets, especially those for the end of this century, we must take into account two factors: ideal goals for the future and actual present conditions.

In terms of ideal goals, we must note several considerations.

(1) The aim of socialism is to make the productive forces attain maximum growth and satisfy the ever-growing needs of the material and cultural life of the people. The aim of population development is by no means unlimited procreation of human beings; it is rather to ensure that all members of society will develop in an all-round way: morally, intellectually and physically.

(2) Population development must be suited to the numerical and qualitative requirements that growing productive forces place on the population. Socialist production should be the modernized large-scale production employing advanced science and technology. Progress in modern socialized mass production requires a relatively diminishing number of labourers while placing ever higher demands on the quality of

the labour force. Developing production depends mainly on tapping the intellectual resources of the people, and not simply on enlarging the "numerical resources" of the labour force.

(3) Under socialism, given increased production and progress in medical and health work, death rates may drop to the lowest possible levels. Therefore the continuity of the population can be assured by a low birth rate.

The present conditions in China's population can be summed up in the following features:

(1) A huge size. By the end of 1980, the total population had exceeded 1,000 million.

(2) Despite the sharp fall in the rate of population increase, the rate is still over 10 per thousand. Because the absolute number of the populace is much greater than it was in the early period after Liberation in 1949, the net increase every year remains anywhere between 11 and 12 million, which is basically the same as in the 1950s.

(3) A young age structure. According to a sample survey conducted in 1975, the age structure of the Chinese population is marked by three characteristics. (a) Children of 14 and under make up a large proportion — 36.8 per cent. (b) Elders of 65 and above are only a very small percentage — 4.8 per cent. (c) The intermediate age, an age which lies in the middle of the natural order of the ages of the population, is young: 21 for 1975, which was younger than the world average of 22.9 years for 1976, much younger than the 30 years in Western Europe. The young age structure means that a huge number of people will soon enter marriage and child-bearing age, which will exert a tremendous influence on the rate of population growth in the future.

(4) After Liberation there were two boom periods of population growth in China, each lasting several years. The first boom began in 1950 and continued through 1957. The annual birth rate in this period was above 30 per thousand, and the yearly births topped 20 million. Most of the people born then have now married and produced their own children, while a

small portion are not married yet. The second boom lasted from 1962 to 1971, with the annual birth rate again above 30 per thousand. Except for 1962 when 24.6 million people were born, each of the ten years saw the birth of more than 25 million people. The highest number was 29.54 million in 1963.

(5) Big rural population. In 1979, the rural population made up 86.8 per cent of the nation's total, which was not much different from the 89.4 per cent in 1949. This is, however, vastly different from the world's trend of population development. The rural population in both developed and developing countries has been declining in varying degrees. In the developed countries, the proportion of the rural population is falling and so is the absolute number. In some developing countries, although the proportion of the rural population is declining, their absolute number is rising because of a high natural increase rate in the rural areas. Things are different in China. While the proportion of our rural population remains virtually unchanged, their absolute number has risen sharply — from 484 million in 1949 to 842.3 million in 1979. The birth rate in the rural areas is 30 per cent higher than in the cities. The big size and high birth rate of the rural population will have a direct bearing on the future trend of population development.

The above considerations suggest a powerful impetus in population growth in the future.

(1) Those born in the boom period after 1962 will soon begin entering marriage and child-bearing age, at an average rate of 12 million couples a year, and women of child-bearing age will make up a greater percentage of the total population than before.

(2) Calculated on the basis of the 12 per thousand natural population growth rate since 1976 (without considering the changes in the number of women of child-bearing age), our total population would reach 1,247.28 million at the end of this century.

This simple forecast shows that China's population will be much bigger at the year 2000 than it is now. This would exert an unfavourable impact on economic development, on the improvement of material and cultural life among the people, and on the provision of employment. It is therefore necessary to control the increase of the population as much as possible.

The most pressing problems before us in China as a whole are to readjust the serious imbalances in the national economy and to rectify the relations between the production of human beings and that of material values. This rectification is necessary to increase the social productive forces at a fast pace and raise the living standards of the people by a big margin. We are striving to quadruple the gross national product in 20 years so that the people may become comfortably off. To gain this end, we must both develop our economy in a big way and exert great efforts to contain our population growth. If we can keep our total population within 1,200 million by the year 2000, it will be easier for us to become comfortably off economically.

Experience in economic construction over the past three decades and in population control in the last decade shows that we should not set our targets too high. If one sets too high a target and tries to achieve quick results, the outcome will be the opposite of one's aims. In deciding on population control targets, we must take this experience into account. As a matter of fact, about 20 per cent of newborns every year are third children. This means we have to do much work to eliminate second and third births. Even if third births are eliminated but every couple has two children on the average, it is estimated that our population will reach 1,230 million by the end of this century. This is not consistent with our present economic level or projected economic growth. That is why we must advocate one child per couple. If by 1985 couples give birth to 1.6 to 1.7 children on average, our total population may be kept within 1,200 million.

It is a tremendous task to try to confine China's population within 1,200 million by the end of this century. To solve the ideological problems involved in this effort and certain policy problems as well, in September 1980 the Central Committee of the Chinese Communist Party wrote an open letter to all members of the Communist Party and the Communist Youth League on the question of controlling population growth. The letter explained the significance of advocating one child per couple. It also analyzed the possible ageing of the population and the shortage of labour force if all couples have only one child each. The general advocacy of only one child per couple will certainly lower the proportion of children of 14 and under in the total population and gradually increase the percentage of those of 65 and above and even sharply raise it after a certain period of time. But, as the present age structure of China's population is young, it will be some time before the problem of ageing appears.

By advocating one child per couple, we do not ask all couples to have only one child each, nor will we pursue this policy indefinitely. That would certainly lead to a problem of ageing of the population and a shortage of young labourers. Since ours is a socialist country, we can make a timely change in our population policy in a planned way and prevent such problems from arising.

The open letter from the Central Committee also analyzed the possibility of a disproportion between male and female births if all couples have only one child each. Statistics compiled in different countries including China show that about 52 per cent of newborns every year are boys and 48 per cent girls. Surveys have also been made in some regions in China of the sex of first-born children. The result again shows that slightly more boys are born than girls. For instance, the First Hospital attached to the Beijing Medical College made an investigation of the sex of the 4,348 first-born babies in 1975-78: 52.9 per cent were boys and 47.1 per cent girls. The open

letter made a convincing reply to a host of worries harboured by the people concerning the policy of one child per couple.

To advocate and encourage one child per couple also requires a number of social and economic policies. The open letter pointed out: "To control the increase of population, the Party and government have decided on a series of concrete policies. The single-child families will be well taken care of in matters of admission into nursery and school, medical care, employment, and in the allocation of housing space in the cities or of housing land in the rural areas."

We can certainly attain our goal of controlling our population if we give first importance to ideological work, if we carry out persistent and careful persuasion and adopt correct policy measures and if our Communist Party and Youth League members and vast numbers of our cadres take the lead in responding to the call issued by the Central Committee of the Chinese Communist Party.

IV. POPULATION POLICY

China's population policy consists of two aspects. The first aspect is an effort to lower the death rate by developing medical and health facilities and improving the life of the people. In this respect, we have scored tremendous successes.

The second aspect is a programme to contain the birth rate by practising family planning. Because ours is a multinational country, we must differentiate among the nationalities and regions with respect to family planning. The Hans make up 94 per cent of the total population, and so the control of the birth rate mainly concerns the Hans. China's 55 minority nationalities totalled 55.80 million people in 1978, accounting for 5.8 per cent of the nation's total. Among them, 28 nationalities number less than 100,000 each.

Some of the minorities, such as the Tibetans and Mongolians, exceed one million each. They were on the decrease

before Liberation, owing to exploitation and oppression by the ruling classes and inadequate medical facilities. The Tibetans numbered 10 million in the year 634, but dwindled from then onwards. There were only 1.2 million in 1959 when democratic reforms were carried out. According to a survey made by the Kuomintang government, the Mongolians had a birth rate of 30.3 per thousand in 1939-40 and a death rate of 44.2 per thousand. Births could not make up for the deaths, resulting in a natural growth rate of minus 13.9 per thousand. Some minority nationalities were so small in number that they were on the brink of extinction. On the eve of Liberation, for instance, the Orogen people numbered only a little over 1,000 and the Hezhen people had dropped from more than 3,000 in the past to a mere 300. The resolute implementation of the policy of national equality by the Party and government since Liberation has contributed much to the great economic and cultural developments made by the minority nationalities. At the same time, their population has registered rapid increases. Statistics show that the combined population of the minority nationalities in China rose from 35 million in 1953 to 39.99 million in 1964 and further to 55.8 in 1978. The average annual population growth rate reached 1.9 per cent in the years 1953-78 and 2.45 per cent in the years 1964-78. The steady population growth is in sharp contrast with the steady decline in old China, which speaks volumes for the benefit the policy of the Party and government has brought the minority nationalities.

Many minority nationalities live in remote areas which are vast but only sparsely populated. They should increase their populations on the basis of expanded production. But some minority peoples are large in size and live in densely-populated areas. If their populations are not appropriately controlled, it will adversely affect their economic development. Hence in formulating our population policy towards the minority nationalities we must consider two aspects. On the one hand, many nationalities that are few in number and live in border

regions should increase their numbers appropriately. On the other hand, we should also adopt different approaches towards minority nationalities in view of their different conditions.

In practising family planning, first and foremost we advocate late marriage and birth control. By birth control, we mean fewer births and longer intervals between two births. This policy is symbolized by the slogan, "late, sparse, few". This is opposed to China's traditional practices in child bearing: early marriage, short intervals between births, and many children per family.

Late marriage means raising the lower age limit for marriage. In old China, early marriage was very much in vogue. Generally, men and women were married under 18. The Marriage Law adopted in 1952 stipulated that no marriage should be contracted before the man was 20 and the woman 18. The new Marriage Law sets the marriage age at 22 for men and 20 for women. But this is the minimum marriage age set by law; this does not mean that anyone reaching this age must necessarily get married. So it does not contravene the advocacy of late marriage. In the Western countries, the legal marriage age is quite early, but the actual age of marriage may be late.

The growth of social productive forces requires that labourers should receive adequate education and that the cycle of the reproduction of labour power should become longer. So the marriage age for young people should generally be postponed. Late marriage makes it possible for young people to receive more education, improve their physique and devote the prime of the lives to moral, intellectual and physical development.

On the one hand, late marriage can shorten the fertility period of women. If a woman gets married at 20, her fertility period will last 29 years (age 20-49). When she marries at 25, her fertility period will be cut down to 24 years (age 25-49). This can help lower the birth rate. On the other hand, late marriage enlarges the age difference between the parents and

their children and prolongs the spacing between two generations. If someone marries under 20, five generations may live together. If he marries at 25, not more than four generations may live at the same time. In this way the total population alive at a given time will be reduced.

The word "sparse" in the slogan quoted earlier refers to longer intervals between births. Given frequent births, the average spacing between births is about two years. Lengthening the time between pregnancies is good for the health of mothers and children alike. When a mother becomes pregnant and gives birth to children in quick succession, she will have to consume a large amount of nutriment, and it is not so likely that the children born will grow up healthily. If the interval is longer, the mother will have enough time to regain her strength between pregnancies.

In addition, a longer interval enlarges the spacing between two generations, thus lowering the rate of population growth. Economically, a longer interval between births is good for the state and for the individual. It makes a great difference in economic burden to the state and to the family whether a child is born three years earlier or three years later. In the latter case, the economic burden on the state and the family will be greatly lessened in a given period.

"Few" in the slogan means fewer births, which is the essence of control of the birth rate. In the past we advocated two children as the most suitable number. In 1978, in order to further control population growth, we switched to "one child the best, two children at most". In view of the possible trend of sharp rises in our population in the future, we must advocate one child per couple. But this does not mean that every couple must only have one child.

Among the purposes of population control is also the improvement of the quality of the population. This means above all that we must ensure the health and intellectual development of the children. Therefore we must advocate eugenics. Our present aim in family planning has been shifted from "late,

sparse and few" to late child bearing, fewer births and eugenics. This expresses the wishes of the broad masses and also correctly reflects the all-sidedness of our family planning policy.

In a socialist country like ours, the fundamental aim of planned control of population growth is to ensure that quantitative and qualitative growth of our population will be in a direction favourable to socialist modernization. The basic purpose is not to ask the people to stop bearing children. On the contrary our government, proceeding from the fundamental interests of the people, shows great concern for infertile couples, providing them with necessary medical care so that they can regain fertility. Infertile couples are few in number, generally making up 3-5 per cent of married couples according to investigations in various localities. Nevertheless, the provision of medical treatment for such couples as stipulated in our population policy is of great importance.

To bring about late child bearing and especially fewer births, and to put eugenics into practice, a number of economic measures have been adopted in various localities. To encourage couples to have only one child, material rewards are given to single-child families. The rewards vary in some ways from place to place but the main forms are as follows:

(a) Subsidies are granted to cover health fees for only children.

(b) Longer maternity leave with full pay is provided to the mothers who have received the "one-child certificate", so that they can look after their babies better.

(c) The past method of allocating housing in the cities and determining private plots, housing land and food grain in the rural areas, only according to the number of people in the family, has been discarded because in effect it encouraged more births.

(d) Priority is given to the children of one-child families in admission into nurseries and schools and in medical treatment so as to ensure their healthy growth.

A major social problem we encounter in promoting one child per couple is how to ensure that the elderly will be looked after properly. Since the level of our social productive forces is not high and social insurance is not developed, children are the social guarantee of support for ageing parents. They provide guarantees of income and of everyday care. Owing to differences in levels of the developing productive forces plus contrasts in ownership of the means of production and in the social guarantee of support for the elderly, young couples and elderly family members in the cities and those in the rural areas vary in their acceptance of the policy of one child per couple. This variation may seem to reflect differences in ideological level, but in fact it shows the impact of present economic levels on child bearing. Therefore, the problem cannot be solved by relying on ideological work and publicity alone; we must make earnest efforts to tackle this practical problem of providing for the elderly.

According to the prevailing labour protection regulations, workers and staff members in urban units under public or collective ownership are paid pensions upon retirement at the age of 60 for men and 55 for women. The amount of the pension varies with length of service. As the pension ends or reduces the economic dependence of the workers and staff members on their sons or daughters when they reach old age, they have practically no reason to rear many children as a source of financial support and they need not worry so much about retirement as they would do if there were no pensions. To encourage couples who have one child each, some provinces and municipalities have stipulated that they will be paid an additional 5 per cent of their salaries or wages as pensions when they retire. For couples without offspring, the pension reaches 100 per cent of their salaries or wages. But as our socialized services in the cities are at a very low level, these couples are worried that they will have no one to look after them when they are old. For instance, much difficulty may arise when

the elderly have to go shopping for goods of daily use or when they become ill.

In some cases, if the family has only a daughter, the elderly parents may still have difficulties in varying degrees. For instance, carrying coal or liquified petroleum fuel, digging a cellar for storing vegetables in northern China, etc., all requires some effort, preferably by boys or men. Therefore, to encourage one child per couple, the cities must expand service trades, especially those catering to the needs of the elderly without offspring, so that the older people can live in peace and contentment. At the same time, great efforts should be made to develop medical and health work, especially for the elderly. This too will help remove the worries of those who want to have more children for fear that they might have no one to depend on when they become ill in their old age.

The problem of providing for elderly couples with only one son or daughter is especially difficult in the rural areas. There the level of the productive forces is low, the collective economy is not rich enough, and when the elderly people lose the ability to work they have to rely mainly on their sons or daughters for income and everyday care. Although the state provides relief, or the production team gives five guarantees (of food, clothing, medical care, housing and burial expenses), for old people without sons or daughters, the standards of provision are not high because our collective economy is not strong enough. So people still think it better to have their own sons or daughters to look after them when they are old.

Formulating policies to solve the problem of how to care for an old couple with only one son or daughter and old people without offspring is an important condition for promoting one child per couple in the rural areas. Since our countryside is vast and economic development is uneven, we must work out practicable measures to provide social security to the elderly in light of the different conditions in various places. Current practices fall roughly into the following categories.

(1) The better-off communes, production brigades and teams with bigger public accumulation funds and welfare funds institute a retirement pension scheme just as in the units owned by the whole people. Old people, when they are unable to work, can live on their pensions and thus reduce dependence on their sons or daughters. For example, the Sijiqing Commune of Beijing started its retirement pension system in 1978, giving each retired commune member a pension of 23 yuan a month. Besides, a co-operative medical service is provided for all commune members. This provides a full guarantee to the old persons of their needs for life. Many young couples see in this the superiority of the socialist collective economy and are therefore more willing to have only one child.

(2) Communes, brigades and teams with a consolidated collective economy and a sizable sum of public accumulation funds, though they are still unable to institute pension schemes, follow the collective methods of providing for the helpless old couples. They usually set up homes for the aged, where they live in peace and happiness. They are looked after well both in everyday life and in sickness. Some communes, brigades and teams, because they are short of funds, run such homes with state assistance. This is also a good way to solve the problem. For instance, the Civil Affairs Bureau of Hebei Province has helped two communes in Nangong and Leting counties set up homes for the aged, with the bureau financing the buildings, the communes providing the staff, and the brigades being responsible for the individual expenses for the elderly. Each home now accommodates dozens of helpless elderly people.

(3) The economically less well-off communes, brigades and teams endeavour to provide the five guarantees with necessary state subsidies so that the elderly may be assured of an easy and secure old age.

Some people suggest establishing a system of providing social insurance for the elderly in the rural areas who have one son or daughter each. This is a feasible alternative.

In short, the formulation of a practicable and effective population policy — in line with our present demographic, economic and cultural conditions and the needs of population control — is a matter of vital importance for population development in China. This policy will be improved and perfected along with progress in our population control and with the accumulation of experience in various localities.

Chapter X

URBAN EMPLOYMENT AND WAGES

by Feng Lanrui and Zhao Lukuan

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EMPLOYMENT and wages are two major issues vital to the national economy and living standards as well as to the stability of the society. China is a country of a billion people and 400 million employable adults, with its economy undeveloped. Such a large population is a potential advantage to the country's economic growth. However, only when the question of employment and wages is resolved satisfactorily will that potential become a reality. China's socialist modernization programme to a considerable degree hinges on the proper solution of the two issues. This article will give a brief review of the basic situation of employment and wages in New China and the efforts the state is making to expand employment, reform the wage system and raise the wage level. The discussion will be confined to urban employment and wages only.

I. EMPLOYMENT

Between 1977 and 1980, the first four years after the overthrow of the "gang of four", China's national economy as well as culture, education, science, public health, sports and other undertakings, all of which had suffered disastrous damages during the ten "cultural revolution" years, recovered and began to develop. Marked progress was also made in the field of urban employment. Between 1977 and 1979, 20 million people obtained jobs and in 1980 another nine million became employed.

Urban unemployment nevertheless remains an outstanding social issue, for profound historical and practical causes.

1. A HISTORICAL REVIEW

In the period since the founding of the People's Republic up to the end of the "cultural revolution" in 1976, policies on urban employment may be roughly divided into the following three periods based on stages in China's economic growth.

The first period: 1949-1957, the period of rehabilitation in the national economy and the first five-year plan;

The second period: 1958-1965, the second five-year plan and the period of readjustment of national economy;

The third period: 1966-76, the "cultural revolution".

(1) 1949-1957. The Chinese labouring people stood up as the masters of their own country when the People's Republic of China was born in October, 1949. But the long years of war and the corrupt rule by the Kuomintang had reduced the country's national economy to chaos. Large numbers of workers were out of jobs and many young people could not afford an education. The country was a scene of devastation and the people were facing starvation. Undaunted by this difficult situation, however, the people's government made tremendous efforts to heal the war scars, rehabilitate the economy and to solve the problem of finding jobs for the four million unemployed left over from the old society.

During the economic recovery period between 1949 and 1952, the national economy and culture recovered and grew fairly quickly, averaging a 21.1 per cent annual increase in the total industrial and agricultural output; while the average annual increase of industrial production was 34.8 per cent.

When the first five-year plan was launched in 1953, a large number of capital construction projects got under way. Construction in all fields surged ahead. In this period, national industrial and agricultural production grew at the average annual rate of 10.9 per cent, with the industrial output value going up 18 per cent annually. The fast development of industry and agriculture and other construction projects called

for a large amount of manpower, thus providing excellent conditions for the solution of the unemployment problem.

Meanwhile, the state adopted relatively flexible policies in solving the unemployment issue. On the one hand, considering that most of the unemployed at the time were adults with family burdens, unemployment relief was issued. On the other hand, the policy was adopted of government-provided employment opportunities together with job searches undertaken by the unemployed themselves. The state policy included launching projects to provide jobs by way of relief, organizing the unemployed to take up production themselves, encouraging those whose homes were in the countryside to return home to resume production, and moving people to other places for land reclamation. These measures were in keeping with the social-economic structure of the time.

At that time, there were several different economic sectors in China. Coexisting with state ownership, the sector which played the leading role, were collective ownership of a socialist or semi-socialist nature, private capitalist economy and individual economy. Socialist enterprises were assigned their work force by the state labour departments and non-socialist enterprises recruited their work force by themselves. Those waiting for employment at the time, along with jobless workers and intellectuals, included a good number of former Kuomintang military and civil personnel. In such circumstances, the people's government encouraged people to find jobs for themselves and at the same time, with a view to protecting the interests of the working people, forbade enterprises to fire workers at will.

Thanks to these efforts, the problem of unemployment was basically solved within a few years. By the end of 1957, the number of workers and staff rose to 31 million (including those in collectively-owned enterprises) as compared with 8 million at the end of 1949. The four million jobless left over by the old society were basically employed. And the urban young people, of whom an average of 950,000 reached

adulthood every year during the first five-year period, were all employed.

(2) 1958-65. The country's economy suffered a serious setback in this period and employment also experienced severe setbacks. Soon after the start of the second five year plan for the development of the national economy in 1957, a leftist error appeared in the planning of the country's industrial and agricultural production and in the transformation of the relations of production. This error consisted of setting excessively high targets far beyond actual capability. In 1958, it was planned to double the previous year's figure for annual steel output. To reach that target, tens of millions of people were mobilized to join the steel making drive. The construction of steel industries took place throughout the country and modern and indigenous blast furnaces appeared everywhere. This was known as "the great leap forward" of the national economy in 1958, with the focus on steel production. Under such circumstances, the 1.2 million young people who reached adulthood every year were far from enough to meet actual needs. Factory and office workers, teachers, students and even housewives in the cities were mobilized in the steel making drive, and 20 million new workers were recruited from the rural areas. The ranks of workers quickly swelled from 31 million in 1957 to 51.94 million in 1958, the greater part of them employed in heavy industry.

At the same time, a nation-wide movement was launched to set up people's communes in the countryside. The advanced agricultural co-operatives which had been organized less than a year earlier were merged to form people's communes. The small plots of land originally allocated to the commune members for private use were repossessed by the commune, and commune members were forbidden to carry on cottage sideline production. Public canteens replaced family kitchens and meals were provided free by the communes. In 1958, three "evil winds" ravaged the land: blind guidance in production, exaggeration of production figures and appropriation of private

and collectively-owned property without compensation, and grave damage was done to agriculture, forestry, animal husbandry, fishery and side-line production. Though grain production failed to increase at all, many local authorities reported false production figures to win credit for themselves. The 1958 grain output was exaggeratedly reported to be 600 million tons, although a checkup made in 1960 revealed the real figure to be only 200 million tons.

The damage done to the national economy by the "great leap forward" was very serious. In 1959, China's agricultural production dropped sharply and continued to decline for three consecutive years, with a decrease of 13.6 per cent in 1959, 12.6 per cent in 1960 and 2.4 per cent in 1961.

The "great leap forward" also caused a serious imbalance among the various branches of the country's economy. The proportion of heavy industry was too high whereas that of light industry was too low; the proportion of the sector of the heavy industrial products which served heavy industry itself was also too high whereas the sector of heavy industry serving agriculture and light industry was too low, and the proportion allocated to urban housing, scientific, cultural, educational and public health undertakings, transport, communications, commerce and service trade was even less. Since heavy industry absorbed large numbers of new workers, the enlarged payroll resulted in a much bigger circulation of currency, which in turn boosted people's purchasing power to a degree far beyond the capacity of agriculture and light industry. National finances and general living standards both faced an extremely difficult situation.

To cope with this problem, the Central Committee of the Chinese Communist Party made a decision to readjust the national economy through readjustment, consolidation, supplementation and standard raising. Firm measures were taken to cut back capital construction investment, by closures, suspension of production, mergers and switchovers. The number of staff and workers were reduced and 20 million workers were

persuaded to return to the countryside and take up agricultural production. Implementation of this policy improved the country's industrial structure. Heavy industry was reduced and light industry increased. Industry and agriculture were able to develop in more rational proportions. The employment mix too became more reasonable, with the labour force of heavy industry, in comparison with the entire industrial labour force, dropping from a high 80.4 per cent in 1958 to 52.6 per cent in 1965, and that of light industry rising from 19.6 per cent to 47.4 per cent.

In this period of economic readjustment, unemployment appeared in the urban areas. Those waiting for jobs were mainly young adults (mostly born around 1947). To solve this problem, Shanghai and some cities in neighbouring Zhejiang Province persuaded 130,000 young people into going to the northwest China border regions (Xinjiang, Qinghai and Ningxia) to join the army production corps. Meanwhile, employment agencies were set up in some cities. These measures played a positive role in solving the unemployment problem.

(3) 1966-76. The ten years of "cultural revolution" threw Chinese society into chaos, and caused further grave damage to the country's economy. Production was pitted against "revolution" and anyone who gave active leadership in production was criticized. At one time almost all state-run enterprises stopped production. Only a few collectively owned enterprises remained in more or less normal operation. On the eve of the fall of the "gang of four", China's economy was actually on the brink of bankruptcy.

During this period, people born since the founding of the People's Republic reached the employment age in cohorts averaging about three million annually. More and more young people demanded to be employed or to continue their education, whereas the national economy and educational system were suffering severe disruption. Institutions of learning were looked upon as "places ruled over by bourgeois intellectuals". Young people were called upon to go to the countryside and

receive "re-education by the poor and lower-middle peasants". Those who left middle school were not allowed to enter college directly (indeed instruction there had long since ceased), nor to stay in town to find jobs. An odd, self-contradictory phenomenon appeared: on the one hand, large numbers (14 million in ten years, according to statistics) went to the countryside to settle in communes or army production corps; on the other hand, when governmental departments and enterprises in the urban areas needed to increase their staff and workers, they could not recruit them in the cities but only in the countryside. Thus, large numbers of rural people moved into the towns. In the ten years between 1966 and 1976, 14 million rural people became urban residents. There was a large-scale interflow of population between the urban and rural districts.

The drawbacks of resettling young people in the countryside surfaced towards the latter stage of the "cultural revolution". Middle school graduates proved to be too young to be able to live independently, and the guidance given to them was poor. Peasants in densely populated regions showed no welcome for the young people. The all but total disruption to the specialized training of people for socialist construction posed a serious threat to the further development of culture, science and technology. These problems began to be noticed and studied in 1974. But as things stood at the time, it was absolutely impossible to change the policies on young intellectuals and labour. It was possible at most to take some minor measures to ease the contradiction. While the call on young people to settle in the countryside continued as the basic policy, some secondary measures were taken such as allowing young people who were the only children in their family or who were ill or handicapped to stay in town and be given jobs. In addition young people were eligible for work or education in the towns and cities after a two year stay in the countryside and those who fell ill and were thus unfit for rural labour and those whose parents in town were too old or weak to look after themselves were also allowed to return. Government de-

partments at all levels set up offices to handle urban resettlement. Consequently there was a continuous flow of young people returning from the countryside through various channels and needing urban employment.

In this period, jobs were not found through employment agencies. A complete system of unified labour force control through state appointment took shape. The state became the sole agency in charge of assigning jobs not only to graduates of colleges, secondary technical and vocational schools and demobilized soldiers, but also to graduates of ordinary middle schools, unemployed young people, returnees from young people's rural settlements and even delinquents and ex-convicts who had completed their term of reeducation through forced labour. Individuals were not allowed to seek employment by themselves. Thus the state was being weighed down by the growing burden of finding jobs for the unemployed. Most of those waiting for jobs were educated young people who had remained in town after leaving school or who had returned from the countryside. Generally they had no family burdens of their own (those who got married in the countryside were not allowed to come back to town) and depended on their parents for a living. Those who were in severely straitened circumstances could get odd jobs arranged by neighbourhood committees.

2. THE EMPLOYMENT ISSUE IN 1977-80

Since the overthrow of the "gang of four", the Chinese people have won tremendous successes in achieving social stability, reviving the national economy and implementing the modernization programme. However, a setback occurred in development during the two years 1977 and 1978. Because the damage done by the ten years of turmoil to the national economy and the seriousness of the imbalance in the economy were underestimated, old practices continued such as setting

high targets and high proportion of accumulation while efficiency and proportion of consumption remained low. That caused great difficulties to the national economic construction and living standards. Towards the end of 1978, it became obvious that the scope of capital construction was overstretched and that too many items were being imported. The national financial strength was threatened and a serious budgetary deficit appeared. Investment and production were showing poor economic results, economic management was inefficient, labour discipline was lax and the workers' enthusiasm for production was low. At the Third Plenary Session of the 11th Central Committee of the Communist Party held in December, 1978, the Party Central Committee gave a clear picture of the serious imbalance in the national economy. In the spring of 1979, the Party Central Committee put forth the policy of readjusting, restructuring and consolidating the national economy and raising it to a new level. However, some comrades in charge of economic work were slow to recognize the significance of the decision and did not make adequate effort to implement it, so that rectification of these errors was delayed. The scope of capital construction remained as large up to 1980 and the unfavourable balances in finance, credit, material supplies and foreign exchange remained unsolved. All this pointed to a latent danger in the national economy. The situation, naturally, did not favour at all a solution to the employment issue.

Despite these problems, the country has made tremendous efforts to tackle the employment issue in recent years and has achieved marked results. Even so, however, there were still more than 11 million urban people waiting for work in 1979. It is estimated that there will be 37 million urban people waiting for employment between 1980 and 1985 (excluding people whose jobs are assigned by the state invariably according to state policy). After nine million people found jobs in 1980, there remained 28 million to be employed between 1981 and 1985.

Why is it that in this socialist country where unemployment was once eliminated such a serious unemployment problem has again occurred?

The major reason is that both the population and labour force have been growing too fast while the national economy has been growing very slowly, or even stagnating or sliding back at certain periods. Population growth was unchecked over a long period of time following the founding of New China. The population of 540 million in 1949 rose to 700 million in 1964, with an average annual increase of over 10,600,000. In 1964, the State Council set up a population planning office and a nationwide call was made for family planning. However, no effective measures were taken to check population growth and inadequate measures were tried out only in a few districts. During the ten years of the "cultural revolution", the population grew at an even faster rate. Statistics show that the total population had reached 970 million at the beginning of 1979. The rate of annual increase in the 30 years between 1949 and 1979 exceeded 19 per thousand, higher than the 17 per thousand world average. Consequently the number of young people reaching the employment age every year has also been growing rapidly. The increase in population and labour force at such a fast pace is more than a developed country can stand, to say nothing of an economically backward nation like China. The economy recovered and developed quite smoothly during the first eight years after the Liberation of the country, but since 1958, economic growth has been painfully slow, sometimes at a standstill and sometimes even in a backslide because of errors in policies. The serious disparity between the country's population growth and its economic growth is the fundamental cause for the acuteness of China's employment problem.

Second, the structure of the country's national economy has been irrational. Over a long period of time, heavy industry occupied an excessively high proportion while the proportion of light industry was correspondingly low and that of com-

merce and service trades was even smaller. In terms of the total industrial output value, heavy industry was responsible for 43.1 per cent and light industry for 56.9 per cent during the first five-year plan period; subsequently heavy industry rose to 60.7 per cent and light industry dropped to 39.3 per cent during the first three years of the second five-year plan period. On the principle of giving priority to heavy industry, state investment in heavy industry was far greater than that in light industry. The ratio between the investment in light industry and heavy industry was 1:8 in the first five-year plan period and 1:14 in the third five-year plan period; it did not return to 1:8.3 until 1979. Such an irrational industrial structure directly affected the rise of the employment level. This is because the infrastructure of heavy industry is much greater than that of light industry. Given the same amount of investment, light industry can absorb a larger labour force than heavy industry. Statistics show that with an investment of 100 million yuan, light industry will absorb 18,000 workers whereas heavy industry absorbs only 6,000. Therefore, when the state investment remains constant, the industrial structure with an excessive ratio of heavy industry and an inadequate light industry can only absorb a much smaller labour force than the industrial structure of the opposite type. Between 1952 and 1980, China's investment in heavy industry totalled more than 374.2 billion yuan and that in light industry was more than 39.4 billion yuan. The practice of giving heavy industry the lion's share of course had an adverse effect on employment as well as national income. Furthermore, solution of the employment issue also calls for adequate attention to be paid to the development of commerce, service trades, urban public utilities, and scientific, cultural and educational undertakings, for investments in these sectors directly affect the level of employment. Generally speaking, these sectors require less investment but provide more job openings. It is estimated that every million yuan worth of fixed assets in these sectors creates jobs for 800 people. Unfortunately, not

enough attention has been paid to the sectors that provide services, another reason for the low level of employment.

Third, the transformation of the country's relations of production has been carried out too fast and hastily.

In the latter half of the 1950's, in violation of the law that relations of production must conform to the nature of the productive forces, the leadership in economic work began to show excessive zeal for "large scale and communist-style" operations. Collectively-owned enterprises were turned into state enterprises, small collectives were merged to form bigger ones and individual ownership by the labourer was banned, though the nature of the productive forces had not changed much. As a result, the proportion of collective ownership in the national economy dropped and the number of workers in the collectively-owned enterprises likewise decreased. The workers of the collectively-owned enterprises occupied 23.9 per cent of the total number of workers in the state-owned, and collectively-owned enterprises and self-employed labourers in 1965 and decreased to 20.9 per cent in 1976, while workers in the state enterprises rose from 72.8 per cent to 78.9 per cent. The change in the pattern of employment had its adverse effect on the level of employment. Practice has shown that given the same investment, collective ownership can absorb four times more labour power than the ownership by the whole people. To add a single worker to the workforce, a collectively-owned enterprise needs a fund of less than 2,000 yuan, whereas a state enterprise (the average of light and heavy industries) needs 9,000 to 10,000 yuan. During the "cultural revolution", a large number of small collectively-owned enterprises were merged into large ones which differed little from state enterprises, thus hampering the creation of more job opportunities.

Fourth, the over-centralized labour control system which has been practised in China for a long time also created many difficulties in regard to the employment issue. Following the Liberation of the Chinese mainland, it was intended that all labour power should come under a unified control and alloca-

tion. It was soon realized that this approach was unfavourable to the solution of the employment issue, and in March 1954 a new approach to the employment problem was taken. On the one hand, the labour department tried its best to find jobs for unemployed people who were eligible, while at the same time, the unemployed were encouraged by publicity and propaganda to find jobs for themselves or seek self-employment. Through the implementation of this policy, the unemployment issue was solved within three years. It was only later, in 1960, the question of urban unemployment came up again as a result of serious setbacks caused by the "great leap forward". In 1963 and 1964, the problem of unemployment was solved mainly through "labour force employment agencies". This practice was condemned during the "cultural revolution" and instead the "unified control and unified assignment" system was adopted. Under this system, the state is responsible for the whole labour force through job assignment, no enterprise is allowed to recruit workers independently and no one is allowed to find jobs or seek self-employment independently. The drawbacks of this system were many. The road to employment was narrowed to state assignment only, thus intensifying the difficulties of finding employment. The unemployed were deprived of opportunity to find jobs or seek self-employment on their own initiative, and some people were idle for several years waiting for a job assignment. The waste of time made them feel disheartened. The morale of workers in state enterprises was corroded. Workers and staff of state enterprises had total job security with no risk of dismissal. This bred phenomena such as overstaffing and loafing on the job. Finally, while enterprises were not allowed to recruit and select new workers according to their requirements, the labour departments had the power to allocate additional workers no matter whether the enterprises actually needed them or not. Consequently, such a system prevented enterprises and undertakings from raising labour productivity and improving management and caused great waste in man power, materials and money.

Finally, the ten years of turmoil during the "cultural revolution" greatly intensified the acuteness of the unemployment issue.

According to policy the state assigns jobs invariably to all graduates from colleges and vocational middle schools, and for these young people, the problem of waiting for jobs is non-existent. Most of the people now waiting for jobs in the towns are graduates of senior and junior middle schools and middle school dropouts. About seven million middle school graduates were produced annually between 1977 and 1980 in urban areas. College enrolment could absorb only 4 per cent, and about the same number were admitted to specialized middle schools and vocational middle schools. Of the rest, a small percentage joined the army, another small percentage went to the countryside to take part in agricultural production, and the remaining number, about 3 million, waited for the state to give them jobs. Were the economy developing normally, it would have posed no problem for a country as big as China to find jobs for three million people every year. The trouble is that people waiting for employment every year include not only those who reach the eligible age for employment, but also those who were unemployed during the "cultural revolution". In the ten years of the "cultural revolution" 15 million urban young people reached the eligible age for employment and 14 million workers were recruited from the countryside. This meant the demand for job openings actually doubled. No country can create so many job openings within such a short time. Obviously, with the workers from the countryside taking up jobs in the towns, job openings were even more difficult to find for young people returning from the rural districts and new adults. This situation is illustrated by the composition of those awaiting employment in urban areas in 1980.

Of the 11 million people waiting for jobs in urban areas in 1980, 3 million were young people who had just reached the age where they became eligible for employment, 2 million were educated youth who had returned from the countryside,

2 million were the previous year's casual labourers and 4 million were people awaiting employment left over from the previous year. These figures show that young people who had just reached the eligible age and were waiting to be employed were only 27.27 per cent of the total number of job seekers.

The situation can also be illustrated by examining conditions in a specific region or city. Shenyang, the capital of Liaoning Province, can serve as an example. This city of 2,700,000 people had 330,000 young people waiting for employment in 1979. Among them 250,000 were returnees from the countryside and only 80,000 were young people who had just reached the working age or who had been waiting for employment for the previous two years. The number of the rural returnees was triple that of the urban young people waiting for jobs.

Why, then, does the unemployment problem still remain since employment is provided for six to seven million people every year? This is because in the last three years we have concentrated on providing jobs for the returnees who had settled in the countryside during the "cultural revolution". They are older than other young people, some of them already over thirty, and it would have been improper to keep them waiting for employment. As a result, however, young people who had just reached working age had to wait.

In short, because population growth was left unchecked for more than twenty years, economic development suffered several serious setbacks and there were shortcomings in the labour control system, China is still facing an arduous task on the question of employment though considerable progress has been made.

3. ACHIEVEMENTS AND EXPERIENCES WITH EMPLOYMENT BETWEEN 1977 AND 1980

During the period between 1977 and 1980, the state provided jobs for 29 million people despite the nation's economic

difficulties. This was of great significance to the improvement of living standards and political stability.

Government bodies throughout China have used a wide range of measures to accomplish this task. The employment issue has been virtually resolved in some large and medium-sized cities. In Xi'an, capital of Shaanxi, there were 2.76 million people in 1979, 1.51 million living in the inner urban area. Among these, more than 100,000 urban residents were waiting for employment, an unprecedented 7 per cent of the total urban population. The municipal government adopted the policy of encouraging a multitude of forms of collectively-owned enterprises to develop production and service trades. That year, more than 90,000 (i.e. 90.57 per cent) people found jobs. In Changzhou, a medium-sized city in Jiangsu Province in East China, there was a population of 461,000 in 1977; 361,000 were residents in the inner urban area, and more than 50,000 of these urban residents were waiting for employment. Between 1978 and the end of 1979, more than 51,000 people found jobs, and the unemployment problem was solved. Hejiang County in Sichuan Province provided jobs for more than 26,700 people in 1979, accounting for 86.3 per cent of its residents waiting for employment.

Some useful experience has been accumulated in the past few years in creating a wide range of job openings and possibilities for further education. Achievements have been made chiefly in the following areas:

- (1) In setting up different types of collectively-owned enterprises. Collectively-owned enterprises were first set up in the fifties. But for a long period of time collective ownership was viewed as a lower form of public ownership whereas state ownership, i.e. ownership by the whole people, was the advanced form of public ownership. Under the influence of this way of thinking, collective enterprises run by urban communities (called "small collectives") were transformed into collective enterprises run by counties or municipal districts (called "big collectives") and county- or district-run collective enter-

prises were transformed into enterprises owned by the whole people (i.e. state-run enterprises). The so-called big collectives, despite their name, were not different from state enterprises, except that they had to pay higher taxes to the state and lower wages to the workers than the state enterprises. Their production plans were assigned to them by government planning departments, the sale of their products was undertaken by the material supply departments and commercial departments, their respective districts or departments were responsible for their loss or profit, they were dependent on labour or personnel departments for the allocation of manpower and their wage scales and bonus systems were decided on by the labour departments. This rigid control of collective enterprises was of course unfavourable to building up employment opportunities.

Since 1979, there has been a rapid development of all types of collectively-owned enterprises. Some are set up by state enterprises, some by districts, counties or governmental bureaus, some by urban communities and some by people waiting for employment. These collective enterprises have absorbed a large number of people waiting for employment. In Chongqing, Sichuan Province, for instance, 398,000 unemployed people found jobs in the first half of 1979, among whom 42.2 per cent were employed by state enterprises and 57.8 per cent by collectively-owned enterprises. Almost all those who have been waiting for employment in the city since the "cultural revolution" have obtained jobs.

(2) In reliance on the initiative of the unemployed to help solve the employment problem. In the past it became a habit for people to sit back and wait for the state to give them jobs — a result of the unified system of labour force control under which self-employment was not allowed and all jobs were assigned by the state labour departments. In those days, finding a living for oneself was looked upon as a capitalist activity. By 1979 it became apparent that it was absolutely impossible for the state to find jobs for the tens of million of people waiting for employment. Some impatient young peo-

ple organized themselves into collective enterprises, in groups of a few, a dozen, or even more. They raised funds, found sites and established business connections for supplying raw materials and buying the finished products. These collective enterprises, known as "popular collectives", mushroomed in 1979 and 1980. In Shantou (Swatow), Guangdong Province alone, 376 of these collective enterprises were set up, involving 482 young people. They range from the production of small retail items and small machine replacement parts to retail trade, catering, repairs, construction, parcel collection and other services. These collective enterprises serve the triple purpose of creating job openings, developing production and making life easier for people.

(3) In easing restrictions to allow individual merchants and craftsmen to run their business as long as they do not exploit others. This is another form of self-employment. Since 1979, a large number of the unemployed have employed themselves under the guidance of local labour departments. According to incomplete statistics, in the first half of 1980 more than 320,000 individuals had been granted certificates of business. Individual enterprises were very lively in Wuhan, Chongqing and other big cities. People employed in this way accounted for 10-15 per cent of the total newly employed.

Of the 35,864 people employed in Shantou in 1978 and the first half of 1979, 49.3 per cent were in state enterprises and large collective enterprises, 40.1 per cent were in community-run collective enterprises and 10.6 per cent were self-employed with business certificates. Among the latter, 690 households (880 people) were in handicrafts, 1,705 households (2,905 persons) in retail and service trades. This was about the same figure as before the "cultural revolution". Some of these self-employed people have special skills, and the new policy has given them an opportunity to put their special skills to good use in reviving many traditional local products. Lei Fengyang, who lives in Yonghong Street, is a good example. He learned from his parents how to make spring rolls and mung-

bean cakes and made a name for himself in Shantou. He has now recruited four other members of his family to work under him, and the family now earns about 500 yuan a month. Their small business has solved their own economic difficulties and also provides a service to the community.

Individual independent labour is permitted as a form of economic activity under state law as formulated in the 1979 Constitution of the People's Republic of China. In 1980, individual workers in the Nangang District in Harbin, Heilongjiang Province, formed their own "individual workers' association". A vice-mayor of the city made a warm speech at the inaugural meeting of the association, which attracted 800 members. This was the first organization of individual workers in China since Liberation. Since its inception, the association has proved its worth in promoting individual enterprises in urban and rural areas, safeguarding the interests of its members, and helping to solve problems in management and the supply of materials. Along with the development of social production and the improvement of people's living standards, individual independent enterprises will definitely increase in areas such as repair work, service trades, arts and handicrafts, retail trade, catering, animal husbandry and other trades. Individual independent enterprises have proved to be one of the ways towards the resolution of the employment issue.

(4) In the setting up of service companies. Service companies were first established in cities in 1978. In the city of Jilin, for instance, there were by 1979 one city service company, three district service companies and 40 community service centres. Aside from running after-school classes and vocational training classes and operating workshops, they also organize unemployed young people into groups which provide all sorts of social services. Of the 42,000 people newly employed in 1979 in Jilin, 43 per cent found jobs in service companies or service centres.

There was a considerable increase in the number of service companies throughout the country in 1980. According to statistics, 140 of the 197 large and medium-sized cities and about 700 of the more than 2,000 counties in China set up service companies. About two million people nationwide were employed in these service companies. Among them, more than 600,000 were permanently employed, about one million were doing temporary or seasonal work and the rest were receiving vocational training in the service companies. Most of the service companies were set up by governmental labour departments and some by state enterprises. This form of employment requires little investment but is very effective.

(5) In the development of labour intensive trades. This has proved to be a good way to resolve the unemployment issue. Traditional Chinese arts and handicrafts have an excellent reputation in world markets. During the "cultural revolution", however, many traditional art objects were regarded as belonging to the "old culture" and their production was forbidden. The revival of traditional arts and handicrafts began only in 1977. As a labour-intensive industry, its development can absorb large number of people waiting for employment. It also helps preserve and carry forward the fine cultural tradition of China and meet the needs of the people for better and more artistic products.

4. THE EMPLOYMENT POLICY ADOPTED BY THE CPC CENTRAL COMMITTEE IN 1980

In August 1980, the Party Central Committee called a national conference on employment, the first of its kind ever held since the founding of the People's Republic. At the conference, experiences and lessons in employment over the past 31 years was summed up and a new policy was worked out, that under the overall planning and guidance of the state, employment by assignment through governmental labour depart-

ments should be integrated with voluntarily-organized employment and self-employment.

A series of measures for the implementation of this employment policy were also formulated at the conference. For example, state enterprises and undertakings may recruit new workers on a selective basis; they may dismiss unqualified and superfluous workers; the state shall support fully and organize different types of cooperatives and cooperative teams which independently raise funds and operate for profit or loss; while continuing to develop actively their own production, state enterprises should fully assist young people waiting for employment to set up cooperatives; the state shall set up farms, forestry centres, livestock farms and farming-industrial-commercial enterprises in towns and suburbs (forest and industrial and mining districts) with the main workforce consisting of educated youth; the state shall encourage and assist non-exploitative individual economic units to develop properly; the state shall make appropriate reforms in the systems of labour power deployment and working hours in certain industries and types of work so that more workers may be employed; the state shall set up service companies and bring into full play their role in providing short-term vocational training, matching people to job openings and organizing production.

The conference pointed out that in order to resolve the employment issue, it is necessary to reform the structure of secondary education. It urged that great efforts be made in establishing specialized middle schools and vocational schools, in the gradual transformation of some ordinary middle schools into vocational schools so as to train workers with specialized knowledge for various industries and trades and improve the quality of the labour force.

The conference also urged the restructuring of the employment mix on the basis of restructuring the national economy and the restructuring of ownership, so as to absorb more people into employment without increasing investment. This means: in terms of industries raising the proportion of the

workers employed in the light, textile and handicraft industries; in terms of industry, agriculture, commerce and service trades, raising the proportion of the workers employed in commerce and service trades; in terms of state enterprises and collective-owned enterprises, raising the proportion of the workers employed in collective enterprises; in terms of capital intensive industries and labour-intensive industries raising the proportion of workers employed in the labour-intensive industries.

Implementation of this policy will resolve the contradiction between the state's responsibility to find jobs for the total urban labour force and its incapacity to do so. It will bring into full play the initiative of various localities, departments, units and especially people waiting for employment, in creating job openings or seeking self-employment. The new policy will also help overcome the old mistaken notion that only work in state enterprises could be considered normal employment. According to the new policy, a person waiting for employment who goes to work in a small collective enterprise or earns his or her living as an individual labourer will be considered as employed. This is fully in keeping with the spirit of the policy decision agreed on at the Third Plenary Session of the 11th Central Committee of the Chinese Communist Party, which affirms an ownership structure in which various economic sectors coexist under the premise that socialist state and collective sectors play the predominant role.

Since the conference, guidance in the implementation of employment policies has been strengthened and positive measures have been taken. Between September and December, 1980, an average of 800,000 people per month found employment.

During this period, there was a rapid increase in the number of cooperative enterprises of various kinds, which raised funds and operated independently. In Shanghai, the number of spontaneous cooperatives increased from 380 (employing 4,000 persons) in September to 770 (employing 11,000

people, half of whom were unemployed young people) in December. These purely spontaneously organized cooperatives are valuable in that they are independent of the state, are responsible for their own profit or loss and implement the principle of "to each according to his work". Meanwhile, the number of small collective enterprises run by urban communities also increased. In 1980, 418,000 people found jobs in small, community-run collectives, accounting for 15 per cent of all the labour force employed by collective enterprises. As a whole, these community-run small collectives have the same points in their favour as the spontaneous cooperatives. However, some are still dependent on community offices which absorb their profits and losses.

There was also a considerable development in the individual sector in the fourth quarter of 1980. In the Eastern District of Beijing, there were 517 households in the individual sector, involving 588 persons, at the end of 1980.

Both the spontaneous cooperatives and individual sector serve as important outlets for employment for young people. There are many trades in which young people may find self-employment and which can absorb large numbers of people. A survey conducted by the municipality of Harbin shows that people may employ themselves in 46 trades including repairs, services, handicrafts, retail trade and catering. In addition, people may operate individually or organize themselves into cooperative enterprises in stockbreeding, transport and communications, public health, culture, education and sports. The cooperative and individual sectors may open up vast possibilities for employment as long as local governments encourage the initiative of the young people waiting for jobs and give them economic assistance.

Naturally, the solution of the unemployment question not only depends on a correct policy and an appropriate labour system; it also involves a series of important questions in the country's economic and social development. This is a factor of the complexity of the employment and concerns other eco-

conomic departments. For example, it would be impossible to develop the cooperative and individual sectors to extend employment without making appropriate changes in finance, bank credits, taxes and prices. Without unemployment reliefs, it would be impossible for enterprises to fire surplus or unqualified workers. At present, unemployment relief is not given in China. If unemployment relief is administered by enterprises, there is no point in an enterprise firing its workers. Besides, the question of employment also involves a number of important theoretical questions which require investigation. To list a few: can an analysis of the socialist relations of production determine whether the existence of unemployment in a socialist society is an objective necessity? Is the appearance of large numbers of people waiting for employment a phenomenon common to all socialist societies or peculiar to China? Is it possible to reach a theory on employment under socialism on the basis of a summary of China's experience in resolving the employment question? These and other issues are being investigated by Chinese social scientists and relevant government departments.

II. WAGES

I. A HISTORICAL REVIEW

Prior to 1976, there were three stages in wage policy and practice in China, according to the economic development of the country.

(1) The first period (1949-57).

In the early days after Liberation, several different wage systems existed in offices and factories. Among the vast majority of cadres from the old liberated areas and young people who had joined the work force soon after Liberation, a free supply system was practised. The remaining office and factory workers enjoyed a system of partial free supply and partial

wages or else a wage system based on parity units in accordance with the price index of certain commodities. Former workers who had remained at their posts after Liberation were paid wages on the basis of the average monthly wage in the last three months before Liberation, in accordance with the January 1949 directive of the Central Committee of the Chinese Communist Party concerning the wages of workers in newly liberated cities.

In March, 1950, the people's Government instituted reforms in the semi-feudal, semi-colonial wage system left over from the old society. Along with progress in the democratic reform movement, measures were taken to abolish the job contracting system which was controlled by feudal gang masters in coal mines, dockyards and construction sites, and to abolish the right of the capitalists' immediate entourage to draw wages without working.

Initial wage reforms were carried out in various parts of the country between 1952 and 1955. In many departments, workers were graded according to their skill and paid accordingly, while office workers in certain enterprises and undertakings were paid according to a wage scale based on work ranks.

On August 31, 1955, the State Council issued the "Order Concerning the Institution of a Wage System for All Workers in Government Institutions and the Implementation of a Money Wage System". The order pointed out that the free supply (or complete rationing) system for government workers, which had played an important role in the revolutionary war period, no longer suited the principle of "to each according to his work" and "equal pay for equal work" in the present period of socialist construction. It announced that beginning with July, 1955, a wage system would be introduced for all functionaries working in state offices and enterprises.

Thanks to the rehabilitation of the national economy and the smooth implementation of the first five-year plan, the state in 1956 decided to make a major reform in the wage sys-

tem on the basis of a universal rise in wage levels. The reform was instituted throughout the country and laid the basis for the present wage system. Part of this reform was a unified wage system, which improved wage parity among different trades, localities and workers and played a positive role in socialist construction. However, a major drawback in this reform was the tendency to copy dogmatically from the experience of the Soviet Union to the neglect of actual conditions in China. For this reason many problems concerning the wage system and wage relations remain with us today.

(2) The second period (1958-65).

During and after 1958, enterprises were prematurely obliged to make a transition to communism. Under the influence of this erroneous concept, egalitarianism pervaded the country's economic work, especially on the question of wages, inflicting tremendous damage to the national economy and living standards. Late in 1958 and early in 1959, the wage system was abolished and in its place a semi-wage, semi-rationing system was introduced in a number of enterprises and state undertakings. In Zhangba colliery, under the Yangchuan Coal Mining Administration in Shanxi Province, for example, a system of "basic wage plus free meals" was instituted for a time. The Party school of the Shaanxi provincial committee of the CCP practised a system of supplying free rations of food, clothing and amenities (to functionaries and their dependents) plus a monthly allowance ranging from 10 to 35 yuan, the rations making up three quarters of the total wage and the allowance one quarter. This low-level "transition to communism" in the distribution of consumer goods greatly lowered the living standards of families with few members that formerly had higher wages and raised the income of families that formerly had a lower income but more members. That was a gross violation of the principle of distribution according to work. It inevitably weakened the enthusiasm of the broad masses of workers for socialism and caused a shocking waste of the society's resources.

During the "great leap forward", piecework and bonus payments were both criticized. The Jiangnan Shipyard in Shanghai and the Fushun Heavy Machinery Plant took the lead in abolishing the piecework system and were followed by many factories. On the eve of the "great leap forward", piecework wages were practised among 3.5 million workers in industry, capital construction and transport and communications departments, accounting for 40 per cent of the workers in these departments. By the end of 1960, however, only five per cent of workers received piecework wages. Meanwhile, bonuses were also abolished in factories, bonuses for single items of merit especially being completely eliminated.

To offset the losses to workers caused by the abolition of the piecework and bonus wages, the State Council issued 600 million yuan and 700 million yuan in 1958 and 1959 respectively in the name of "great leap forward awards", which were shared by almost all workers. The 1958 "great leap forward award" to every worker was equivalent to half the average monthly wage. That of 1959 averaged less than half the monthly wage for the industrial workers and no more than 40 yuan for workers in other sectors. In 1960 the "great leap forward award" was not issued, due to the country's economic difficulties. At that time, the time-rate wage system alone proved ineffective in arousing the workers' enthusiasm for production. Therefore, after 1959, enterprises were permitted to issue a monthly or quarterly comprehensive bonus based on appraisal by the workers. Qualifications for such a comprehensive bonus, besides contributions in work and work discipline, also included good performance in "political study" and "solidarity and coordination". The fund for such a bonus generally amounted to seven per cent of the payroll and 80 to 90 per cent of the workers were eligible. Although still smacking of egalitarianism, the comprehensive bonus was an indication of a slight slackening of the rigidity in policy and to some extent helped improve work attendance.

Piecework wages and bonuses were gradually restored, along with the implementation of the policy of "readjustment, consolidation, and raising standards." In June, 1961, the Party Central Committee published "The Regulations (draft) for Work in State-run Industrial Enterprises" which stipulated that "wages by piecework should be practised wherever necessary and possible." It also stipulated that in addition to the comprehensive bonus, industrial enterprises could also issue bonuses on separate items. Consequently, the number of the workers receiving piecework wages increased from less than five per cent in 1960 to 19.9 per cent of the total number of workers in 1963. The scope of the comprehensive bonus also extended from industry to commerce, service trades and some state undertakings. Unfortunately, the leftist tendency soon reappeared after the difficulties of those years had been resolved. In the "socialist education campaign*" which began in 1964, the draft regulations mentioned above came under attack and piecework wages and bonuses were again denounced as capitalistic.

(3) The third period (1966-76).

During the "cultural revolution" period, the principle of "to each according to his work" was once more criticized as containing capitalist elements, and the piecework and bonus systems were again abolished. The part of fund which had formerly been used for above-norm piecework wages and bonuses then became a supplementary wage evenly distributed every month. This egalitarian supplementary wage was practised for more than a decade.

At the end of 1971, the State Council decided that a promotion of one grade be given in state-run enterprises and undertakings and government institutions to grade-3 workers**

* A campaign launched by the Chinese Communist Party in both urban and rural areas to overhaul political, economic, organisational and ideological matters.

** Wage scale of workers is divided into eight grades, with grade one as the lowest and grade eight the highest.

who had joined the work force before 1957, grade-2 workers who had joined the work force before 1960 and grade-1 workers and workers receiving a wage lower than the grade-1 workers who had joined the work force before 1966, together with workers with similar work seniority and wage levels. Promotions could be more generous among the underground mine workers. When a one-grade promotion meant an additional income of five or more yuan, the promotion was executed according to current wage scales; when it meant less than five yuan, it should be raised to five yuan. This wage increase applied to more than 3.5 million workers, 7 per cent of the total work force. The beneficiaries of the pay raise were those who had worked for more than ten years and had taken on apprentices and whose monthly wage was about 40 yuan. They were in extreme economic difficulties and their wage problem was too urgent to allow any further delay.

From the complex history from 1949 to 1976 of wages in China outlined above, it can be seen that the wage policy was basically correct in the period of economic rehabilitation from 1949 to 1952 and the first five-year plan period between 1953 and 1957. In his report on wages and labour insurance and well-being delivered at the third plenary session of the Eighth Party Central Committee held in 1957, Comrade Zhou Enlai pointed out: "In the past eight years, we have not only raised wages and improved the lives of the workers, but have also fundamentally transformed the semi-colonial, semi-feudal wage system and established a wage system which basically conforms with the socialist principle of 'to each according to his work'." But after 1958, egalitarian thinking held sway and the principle of "to each according to his work" was negated. Then in the 1963-65 period of economic readjustment, the piecework and bonus system gradually was restored and the principle of "to each according to his work" was revived. Things became better. However, in the spring of 1966 out came the slogan "No material incentives besides wages and work points". Then came the "cultural revolution" period, during

which the principle of distribution according to work was further denounced as "an important economic breeding ground for bourgeois elements". The current wage system, which dated back to before 1957, was labelled "revisionist". As a result, it was not possible to retain the wage system which was basically in conformity with the principle of distribution according to work, nor was it possible to make a rational readjustment of the wage level as a whole and wage disparities between people of different trades. The wage problem became increasingly acute with the passage of time.

2. THE OVERTHROW OF THE "GANG OF FOUR" — A TURNING POINT IN WAGE POLICIES

Following the overthrow of the "gang of four", the broad masses of people urgently demanded correction of erroneous concepts and practices in regard to wages. In the light of this demand, Chinese economists held four forums on distribution theories in Beijing between 1977 and 1978. At those forums, the erroneous views on distribution were refuted, particularly the absurdity that the principle of "to each according to his work" was "a breeding ground for bourgeois elements". The good name of bonuses and piecework wages as forms of labour remuneration was restored. In short, the forums played an outstanding role in repudiating the pernicious influence of the leftist tendency and correcting the future course of China's economic construction. They also helped lay a favourable ideological foundation for the solution of the contradiction-riddled issue of wages.

In August, 1977, the State Council published a circular on raising the wages of a sector of office and factory workers. Those eligible for the wage increase were mainly people who had joined the work force many years ago but whose wages were relatively low. Considerations in making selections for the pay raise were: political behaviour, work attitude, work contributions and technical level. The scope of this pay increase

covered grade-1 workers who had joined the work force before the end of 1971, grad-2 workers who had joined the work force before the end of 1966 and 40 per cent of other workers who had joined the work force prior to the end of 1971 (excluding functionaries of and above grade 17*).

The state earmarked 2.2 billion yuan for this wage increase, which brought an average of 5.55 yuan per month per capita (beginning with October 1977) for 31.6 million people working in state-owned sectors (accounting for 50 per cent of the total).

In 1978, the state allocated another 100 million yuan for a wage hike for 1.3 million workers.

In October, 1979, the state allocated more than 2.1 billion yuan for a wage increase for 40 per cent of the workers (about 27 million people). At the same time, an additional 3.2 million yuan was allocated to extend the scope of wage increases to 70-80 per cent of the advanced intellectuals in institutions of higher learning, scientific research, design, public health, sports and culture. A great majority of workers who had made outstanding contributions and those who had worked for a long time but whose wages were relatively low were thus given a wage increase, inspiring them to greater initiatives in their work. However, this wage increase also had its defects. Too much stress was laid on workers who had not had a pay raise for a long time but whose wage level was relatively high, to the neglect of those whose wage was still relatively low despite their pay raise of five to seven yuan in 1977. Consequently the latter's enthusiasm was dampened. Besides, there was a widespread reliance on the method whereby "decisions as to who should enjoy a pay raise could be only finalized after three discussions by the masses and the publication for three times of the deliberations by the leadership", which had a damaging effect on good relations between workers.

* The wage scale for people working in Party and government institutions is divided into 29 grades with the 29th the lowest.

Since 1978, the material bonus and piecework wage systems have gradually been restored in various parts of the country. On May 7, 1978, the State Council issued a circular on bonuses and piecework wages, which stipulated that piecework was to be practised only among the few trades which require heavy physical or manual labour and the above-normal piecework wages should be confined to within 20 per cent of the standard total wage of piecework workers, and that bonuses cover both workers and staff in enterprises and the ratio of bonus in comparison with the standard wage of those covered by the bonus system should be kept at 10-12 per cent.

In the last three years, the bonus system has been extended to an increasingly broad scope and appears in an increasing variety of forms. By the first quarter of 1979, 52 per cent of the workers were covered by the bonus system and the number has continued to rise. In Liaoning Province, for example, the bonus system covered 90 per cent of the workers there by June, 1979. Besides bonuses for topping quotas and the comprehensive bonus, there are bonuses for quality, economy and safety. More and more, bonuses are decided not through mass appraisal but through calculation of points. Meanwhile, considerable progress has also been made in the piecework wage system, which has been extended from trades involving heavy physical and manual labour to other trades.

Between 1977 and 1979, the state increased the income of factory and office workers throughout the country through wage increases, piecework wages, bonuses and allowances. The outlay for those three years amounted to 4.5 billion yuan in wage increases and 3.6 billion yuan in material awards. The state also adjusted regional wage differentials*, raising the third region wages to the level of the fourth and the fourth to the fifth. This meant an additional outlay of more than 500

* The country is divided into six wage regions; workers in the sixth wage region are paid a few yuan more than workers of the same grade in the fifth region, and so on.

million yuan, benefiting 40 million workers. The state has also introduced allowances for work in high temperatures, building workers who move from place to place on construction sites, primary and middle school teachers in charge of classes and a dozen or so other cases. This meant an expenditure of 160 million yuan. All these expenditures, plus other miscellaneous items, totalled 9.4 billion yuan, or over 10 billion if the bonuses for practising economy are included. The total for three years was 16.8 billion yuan.

China's total wage bill in 1980 reached 77.3 billion yuan, a 19.5 per cent increase over 1979. The wages of workers in enterprises owned by the whole people amounted to 62.8 billion, 18.6 per cent more than in 1979, and the wages of workers in collectively owned enterprises amounted to 14.5 billion, 23.4 per cent over 1979. The 1980 annual wage of the total national work force (104.44 million) averaged 762 yuan per capita, an increase of 14.1 per cent over the previous year. The average per capita wage of workers in state enterprises (80.19 million) was 803 yuan, 13.9 per cent over the previous year, and that of workers in urban collective enterprises (24.25 million) was 624 yuan, a 15.1 per cent increase. The average wage of the workers in state enterprises in 1980 increased by 80 per cent compared with the 1952 wage (446 yuan). Taking into consideration the estimated rise of 37 per cent in the cost of living index, the real wage of workers in state enterprises rose by 31 per cent.

3. PROBLEMS IN CURRENT WAGE PRACTICE

(1) Relatively low wage levels.

It is obvious that the current wage level is rather too low in China. In 1978, 82 per cent of all factory workers and 68 per cent of office workers had a monthly wage of less than 56 yuan. Sampling investigations conducted in 1980 show that 68 per cent of medium-level and advanced intellectuals received

a wage much lower than their professional qualifications entitled them to, 2.13 grades lower on the average. College graduates who have worked for 10 to 20 years receive a monthly wage of between over 40 and 70 yuan. Among the newly promoted associate professors at Beijing University, 68 have a monthly wage of 78 yuan and 16 have 69 yuan a month. It should also be noted that the overwhelming majority of low-wage staff form the backbone in production, the professions, scientific research and technology. They bear heavy responsibility at work and economic burdens at home. The solution of their practical difficulties is an imperative task in the current modernization drive.

Wage increases among Chinese workers have gone through three "highs" two "lows" since the founding of the People's Republic. The three "highs" occurred during the first five-year plan period, the readjustment period in 1963-65 and the period 1977-79, when the wage of workers in state-run organizations and enterprises registered annual increases of 7.4 per cent, 3.3 per cent and 5.2 per cent respectively. In these three periods, the average wage rose in varying degrees. During the second five-year plan period when the "great leap forward" took place and the "cultural revolution" period, however, the average wage actually fell. Compared with 1957, the workers' average annual wage in 1976 dropped by 5 per cent, i.e. from 637 yuan in 1957 to 605 yuan in 1976.

What is the cause for this abnormality? There are undoubtedly many reasons, but the basic, principal reason is that mistakes were made in economic policies and population policies. For a long period of time, a lopsided view was taken on the relationship between production and the living standards and between consumption and accumulation. It was not realized that improvements in the living standards would play a positive role in promoting production and that the low level of consumption had a restrictive influence on accumulation. Because no attention was paid to improving living standards and adjusting wages when it would have been appropriate,

living standards failed to improve as they should and consequently production and construction could not develop as they should. Furthermore, since the mid-fifties, there was an over-emphasis on the benefits of a large population, with such slogans as "more people is a good thing" and "more people means more done". As a result, 600 million were born within 30 years. That means one-third of the national income created in those 30 years was consumed by young people below the age of 16; further 58 per cent of the annual increase in consumer goods goes to the new population and only 42 per cent goes to meet the needs of the existing populace. At the same time, there was a rapid increase in the number of people reaching the age where they were eligible to join the work force. Of the average annual increase in the total wage bill of state-run enterprises during the 25 years between 1953 and 1978, 56 per cent went into the wage of newly employed workers and 44 per cent was used for raising the wages of the old workers. To make things worse, the large number of people waiting for jobs served to prevent the rise of the wage level.

Under the conditions of commodity and money relations, any fluctuation in prices (including charges for service) has a direct effect on the actual buying power of the nominal wage. To a worker, what is of significance is the real wage, not the nominal wage. Since 1957, while the nominal wage of the Chinese worker has been going up very slowly, prices have kept rising. Consequently, the real wage has dropped. According to statistics, the total index of the living costs of the urban workers in China went up 16.4 per cent between 1957 and 1979 while the nominal wage increased only by 10.7 per cent, resulting in a drop of 5.7 per cent in the real wage. The effect on individuals, of course, differed from case to case. Workers whose nominal wage increased considerably might find that the increase could offset the price rise. But workers whose nominal wage increased only a little or not at all found their real wages plummeting. It is estimated that 10 to 20 per cent of the workers have not had a wage increase since 1957, and

these workers react most strongly to price rises. It should be pointed out that the total price index of living costs mentioned above is calculated on retail prices at state enterprises, excluding market place prices (where peasants sell their own produce at prices fixed by themselves and where urban workers have to buy part of their non-staple food); also the types, brands and even measurements of the commodities chosen in compiling the statistics may not faithfully reflect the actuality. Therefore, the real index of workers' living costs may register a 20 per cent rise.

(2) Egalitarian trends in wage policies.

Egalitarianism has long been a problem in wage policy in China.

Some people believe that since the per capita national income and the average wage are rather low, a reduction in wage differences to allow a certain degree of egalitarianism is inevitable to ensure the simple maintenance of the status quo in production for a considerable sector of the labour force. This view represents our actual practice in the past. However, we should realize that certain connections exist between low wage levels and egalitarianism in wages, and that the two have a common cause — a leftist trend in wage policies. The leftist trend has been the cause behind both the low level of wages and the reasons for practising egalitarianism. Between the two phenomena there exists a vicious circle of mutual cause and effect, i.e., egalitarianism in wages is bound to dampen the workers' enthusiasm for production and prevent production from developing, thus disrupting the material basis for raising wage levels.

Egalitarianism in wages is practised not only among workers in the same enterprise but also among workers in different enterprises. The existing wage scale has developed "lumps", and the scale fixed in 1956 exists only on paper. For example, productive workers who joined the work force between 1957 and 1960 generally belong to grades 3 or 4, and college graduates joining work in the same period generally belong to the

20th or 21st wage grades of functionaries; and workers who joined the work force between 1961 and 1966 generally belong to wage grades 2 or 3 whereas college graduates of the same period generally belong to the 21st or 22nd grade. So people at the same wage grade differ a great deal in professional and technical levels and in the value of their performance. The wage differential for simple and complex work is insignificant and in some cases, the wage for simpler work is even higher. Egalitarianism is also apparent between workers of different enterprises. The ratio of workers to be given wage increases and the proportion of income for bonuses are the same in different enterprises regardless of the efficiency of their management and operation. The wage bill of an enterprise does not show how well or how poorly it is run.

Egalitarianism is backward and reactionary. It will be impossible to succeed in our modernization drive if egalitarianism is not abandoned. Yet, the egalitarian mentality has a broad social foundation in China, and tremendous efforts are needed to refute it.

(3) Overcomplicated wage scales.

The wage scales now in use in China were patterned after the Soviet Union in the mid-fifties. Although some alterations and additions have been made since then, there has been no fundamental change. Under this wage system, there are hundreds of wage scales and more than one thousand wage grades, thus creating unnecessary disparities among different branches of industry, trades, enterprises and types of work, and between mental labour and physical labour. For example, the wage norms for industries and enterprises were set in accordance with their relative importance in the national economy (according to the bias then current) and the administrative affiliation of the enterprises. Therefore, wages in heavy industrial enterprises were generally higher than in light industrial enterprises, and wages in the central enterprises higher than in local enterprises. Obviously, however, this is not in keeping with the actual situation, for there is light work

in heavy industry and heavy work in light industry, and simple kinds of work are found in enterprises run by the central government and complex kinds of work in enterprises run by local governments. Again, because an inappropriate emphasis was laid on paying higher wages in sectors directly producing material wealth than in those that do not, the wages for middle and primary school teachers, and non-manual workers in scientific, technical and administrative departments were lower than wages for manual workers with similar seniority. To make things worse, a number of supplementary regulations were enforced after 1958, such as stipulations that functionaries promoted to a higher position may not be given a wage increase and that a worker after a transfer to another type of work may continue to receive the same wage. This naturally further complicated the wage scales.

(4) Excessive rigidity and centralization in wage administration.

The country's administrative structure on wages was, like the wage scales, copied from the Soviet Union in the mid-fifties. It was characterized by an over-emphasis on centralization, with centralized guidance not only in policy and planning but also in working out wage forms and methods for promotions. Enterprises had absolutely no decision-making power, and even local governments and departments had little power to deal with wage problems in the light of local conditions. Thus, it was impossible to integrate economic responsibility, results and benefits; nor was it possible to look after the interests of the state, the enterprise and the individual worker at the same time, so that enthusiasm in all sectors was greatly lowered. For instance, the methods of increasing wages were so rigidly fixed that basic level organizations could not make any alterations in the light of local conditions. The state fixed a unified percentage of wage increases for all in disregard of the composition of the personnel of local departments and the value of their performance, thus causing an irrational distribution of rewards. There was a consensus among cadres and

workers to the effect that "such a unified practice bind us hand and foot."

(5) Difficulty in implementing the principle of distribution according to work and lack of a scientific basis in wage policy-making, due to a universal lack of production quotas and inadequate quota control in enterprises and undertakings.

For a long period of time, many enterprises and state undertakings did not have work norms, records of work time contributed by workers, a standard of work qualifications and measures for checking efficiency. Since 1977 the situation has improved considerably but a chaotic state of affairs still exists. It is imperative to calculate the amount of work done by each worker accurately if we want to implement the principle of distribution according to work and manage wage practices properly. Calculation of the amount of work done requires a control of work quotas, i.e. measuring the results of labour performed in a given amount of time. A scientific work quota is the yardstick for calculating the value of work performed. Without a work quota, it is impossible to calculate and make comparisons between different work performances. Under socialism, the work quota is the standard the state or an enterprise fixes for workers in every type of work. In theory, workers at each technical grade are entitled to receive the standard wage of that grade only when they have achieved the work quota set for that grade. If the amount of work performed exceeds the quota, they may receive a certain amount of extra wage and if the work falls below the quota, wages should be reduced accordingly. The manner in which a worker meets his or her work quota serves as an overall reflection of work performance in a given period of time, or in other words, a reflection of attitudes to work and technical level. Therefore, on deciding on the technical grade and wage grade of a worker, attention must be paid not only to the worker's technical level (ability) but also to how well he or she has met the work quota over a period of time. In piecework, the work quota becomes the principal basis for calculating wages. That is why some

people call piecework wages "the quota wage system". In short, an effective quota control over work is a prerequisite for the implementation of the principle of distribution according to work and for the successful administration of wage policies. Without a rational work quota, distribution according to work is merely an empty slogan and wage policy can never be implemented properly.

(6) Defects in issuing bonuses.

The bonus system which was restored in 1978 has played a positive role in improving management, raising the living standards of the workers and arousing their enthusiasm in production. But there are still problems concerning the allocation of the bonus fund and its use. The primary problem is the egalitarian practice in distributing bonuses, reducing bonuses to the function of supplementary wages and robbing them of their role as awards for the advanced. Secondly, since the bonus fund is often divided up evenly among workers, there is no money for bonuses to be awarded to those who have topped their work quota. In order to find money for such bonuses, enterprises often resort to improper ways to obtain funds, very often entering the extra bonus payments as part of production costs in their accounts. This in essence amounts to the illegal distribution among workers of part of the enterprise's profits which ought to be delivered to the state. That is the most covert, most dangerous and most elusive way of distributing bonuses improperly.

Since 1979, many enterprises to varying degrees have linked bonuses to their performance, achieving definite benefits in this way. Yet, because of the defects in price parities and management structures, many enterprises are finding themselves at a disadvantage in regard to benefits, as summed up in the saying: "Those who exert themselves much earn little whereas those who exert themselves little earn much." Therefore, there should be difference in the allocation of bonus funds by enterprises of different types before a fundamental transformation is made in the price parities and management

structures, so that the proportion for bonuses and tax rates can be fixed rationally after all the objective factors that affect the profit of an enterprise have been taken into consideration. This will enable an enterprise to get a bonus fund in conformity with its performance. Enterprises which operate at a loss because of factors beyond their control should be allowed to allocate a certain amount of bonus funds in accordance with the degree to which it has reduced its losses.

4. QUESTIONS CONCERNING WAGE REFORM AND IMPROVEMENTS IN WAGE POLICIES

As mentioned above, the current wage system in China was fixed more than two decades ago, in line with the Soviet model. Some regulations did not fit the Chinese reality even at that time, while others which then presented no serious problems now no longer fit the present changed situation. Therefore, wage reform is essential. An overall reform of the wage system, however, is a very costly undertaking, with certain preconditions for success. Such conditions do not apply in the current economic readjustment period. Nevertheless, some partial reforms may be made so long as they don't interfere with the readjustment of the national economy. In fact, since the Third Plenary Session of the Party's 11th Central Committee, various departments and local authorities have carried out partial reforms of the wage system in pilot cases with promising results. Some of the pilot experiments that merit attention are listed below:

(1) The floating wage system.

Under this system, part (usually more than half) of a worker's standard wage is taken as the basic wage. The rest of the standard wage, plus bonuses (sometimes also plus part of the profit at the disposal of the enterprise, and also in a few enterprises plus allowances), becomes a "floating wage", calculated on the basis of the performance of the worker in production. In the Chicheng County Chemical Fertilizer Plant in

Hebei Province, for instance, half of the standard wage of the workers is taken as the fixed basic wage to ensure the minimum necessary living expenses for the workers, the other half of the standard wage is the floating wage, which varies according to how well or poorly an individual worker fulfils his or her work quota (counted by points). A worker who meets 100 per cent of his or her work quota gets 100 points and a floating wage equivalent to half of the former standard wage earned. If the worker meets his or her work quota by 120 per cent, he or she gets a floating wage to the equivalent of 120 per cent of half the former standard wage earned.

The plant also floats its bonuses. The plant's bonus fund deducted from the monthly profit is divided by the total points the workers have won that month to establish the value of one point. Then the bonus is worked out on the basis of the number of points each worker has performed.

Therefore, the monthly wage is composed of a basic wage plus a floating wage and floating bonus.

The plant has had good results since it introduced the floating wage system in April, 1980. Over 90 per cent of the workers have increased their income and the losses formerly suffered by the plant have been converted into profits.

(2) The flexible wage system.

This system has been operating in the Guangfu Road Meat Shop in Jiamusi, Heilongjiang Province, since July, 1980, and has also produced good results.

The wage fund is deducted from the shop's monthly turnover. For example, 1.20 yuan is drawn from the sale of each 50 kilogrammes of raw meat and 1.50 yuan is drawn from the sale of every 50 kilogrammes of cooked meat. The wage fund is then distributed among the shop workers in accordance with the number of attendances and performance.

Since the introduction of this wage system, the average monthly wage of the workers has risen from 40 to 60 or 70 yuan and the shop has greatly improved its service to cus-

tomers. The profit returned to the state has also been increasing every month.

(3) The deduction wage system.

This system is generally practised by barber shops. Under this system, a deduction percentage is worked out in accordance with a specific barber shop's equipment and facilities, its location, its charges and its past business performance. A barber shop gets its wage fund in the deduction from its monthly turnover according to the deduction percentage and then distributes the fund to the barbers in accordance with the principle of "to each according to his work".

The barber shops in Tianjin worked under this system in the early sixties and delivered to the state an average yearly profit of 730,000 yuan. During the "cultural revolution", they switched over to the fixed wage system and made annual losses for 11 years running, averaging a yearly loss of 100,000 yuan to the state and monthly loss of 13.47 yuan to each barber. The deduction system was restored in 1979 and that year, the barber shops contributed to the state 380,000 yuan in profit and the barbers increased their monthly income by more than 10 yuan.

Following the introduction of the deduction system in barber shops in Beijing in August, 1979, attendance has risen from 70 per cent to more than 95 per cent and many barbers happily work overtime. The problem of long queues has also been eased. The barber trade in Beijing increased its profit more than twofold in 1980 as compared with 1978. That deduction meant an additional monthly 25.07 yuan for every barber on the average, equivalent to more than half of the basic monthly wage (47.37 yuan).

(4) The over-quota piecework system in small collectives.

This system is practised in 44 textile mills in Shanghai, involving a total of 12,300 workers. It operates like this: the production team, production line or a group of workers working on the same machine unit is taken as the basic unit for

checking up the results of production and operation; workers who have overfulfilled their production quota get an over-quota bonus based on the amount of work performed over the quota, calculated by the piecework method. The over-quota bonus fund is drawn from the factory's bonus fund and the factory does not issue other forms of bonuses. The management first of all determines an advanced, reasonable production quota and sets strict criteria for its calculation. It then specifies production responsibilities and technical norms for the basic production teams and individuals and gives each production team the labour rewards it is entitled to. The rewards are divided up among the workers of the small collective according to individual performance. In this way, every worker receives a monthly wage that is also floating. This system overcomes the egalitarianism which was common in issuing bonuses in the past and at the same time recognizes cooperative productive relations under conditions of large-scale socialist production. It is helpful in both encouraging worker initiative and promoting production.

(5) The piecework system.

This wage system was restored in 1978 but has still not been adopted widely enough. It has been shown in practice that the piecework system is a quite effective way of realizing the principle of "to each according to his work", and is particularly effective in types of work which require mainly manual and physical labour. It seems proper to introduce the piecework system wherever it is appropriate. There are two piecework systems now being practised in different localities, non-restrictive piecework and piecework wage for over-quota work. Under the non-restrictive piecework system, the basic wage is done away with and the remuneration unit is calculated according to the grade of the workpieces. Wages for every worker are worked out on the basis of the amount of products or labour contributed. In the over-quota piecework system, the basic wage is still retained and only the over-quota part of the worker's labour is calculated on the piecework system

and the remuneration allocated accordingly. Both systems have been in operation to some degree since 1978. In Shandong Province, for example, the piecework wage system has been introduced in 30 per cent of the enterprises there.

(6) The point system on small quotas.

In recent two years, a point system has been practised in many enterprises. The enterprise divides up the quotas fixed by the state into many smaller quotas to be filled by production teams and individuals. Bonuses are given to the teams and individuals according to their performance in regard to the small quotas. Bonuses for the office staff is worked out according to their performance in professional work. This system can also help overcome egalitarianism.

(7) The comprehensive bonus for all up-to-the-norm work in the building industry.

A comprehensive bonus is given in the building industry, calculated on the basis of the national unified labour quota. Six aspects of building work are taken into consideration: quality of the project, on-schedule completion of work, labour productivity, material consumption, labour safety and cleanliness of construction site after completion of the project. This comprehensive bonus, plus piecework for individuals and contracts for a part or a job of the project undertaken by the work squads, takes care of the interests of different groups of workers in the building industry.

(8) Quotas set for workshops and remuneration linked with production.

This system is similar to that now being practised in agriculture. The enterprise management sets production norms for each workshop which supervises its workers through a workpoint system. Those who fulfil the production norm are given a basic wage and overfulfilment means an extra wage. Failure to fulfil the norm will result in a deduction of 10 to 20 per cent of the basic wage. Very good results have been reported by the Beijing Leather Products Factory.

(9) The workpoint system for functionaries.

Currently, a reform of the wage system among functionaries has also appeared on the agenda. A workpoint system for functionaries was introduced in the Shanghai Shengli Garment Factory in 1980. The first step was to work out detailed work regulations for the functionaries in each office. These regulations, generally numbering eight to 10 items, stipulate the scope of responsibility, duty, power and work requirement of each functionary. The regulations are made as specific as possible as to the time, quantity and quality of the work required. Each regulation is given a certain number of points and the whole set comes to a total of 100 points. Each functionary or office worker is assessed for his or her work performance every month on the basis of the regulations, and bonuses are given according to the monthly rating.

All of these wage and bonus systems link up remuneration to the result of production in varying degrees, and have therefore produced good results.

In the past two years or so, different forms of systems linking remuneration with output have been widely applied in rural China. This system has greatly aroused the peasants' enthusiasm for production and brought rapid changes to the countryside. Inspired by the successful application of the system with remuneration based on production results in agriculture, enterprises in many urban areas have begun to try a similar system in the light of their own specific conditions. Under this responsibility system, work is divided into quotas and contracted from each level to the level below, until the responsibility for fulfilling a certain amount of work is settled on the shoulder of each worker. Under this system, economic power, economic responsibility and economic results are closely linked with economic benefits. This responsibility system has also proved instantly effective in urban enterprises. For instance this system was introduced in the Shenjiaxiang Road Maintenance Section under the Hefei Railway Maintenance Administrative Office in June, 1980. Each piece of work in the section was contracted to each individual worker and wages

are calculated on the basis of the actual fulfilment of the work contracted. The result is a 20 per cent increase in efficiency. Another example is provided by the Guangzhou Steel Works. This plant, which had been losing an average of 16 million yuan every year for a long period, introduced a similar system in 1980. The plant contracted to operate at an annual loss of 8.5 million yuan. If its loss turned out to be higher, the state would not make up for it, but if the loss was lower than the contracted figure, the plant would be allowed to retain the balance. After a year's trial, the plant not only put an end to its history of unprofitability but made a profit of 380,000 yuan. This indicates that the responsibility system must be universally introduced in urban enterprises if we expect to make a breakthrough in labour wages.

Chapter XI
SCIENCE AND TECHNOLOGY

by Tong Dalin and Hu Ping

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I. DEVELOPMENT OF SCIENCE AND TECHNOLOGY SINCE THE FOUNDING OF THE PEOPLE'S REPUBLIC

1. THREE STAGES IN THE DEVELOPMENT OF SCIENCE AND TECHNOLOGY

(1) First stage (1949-66).

Old China was extremely backward in science. In the 20 years between 1928 and 1947, the Kuomintang government trained no more than 180,000 college graduates. At the time of the mainland's liberation, China had only 30 to 40 scientific research institutes and 50,000 scientific and technological personnel, of whom only a few hundred were engaged in scientific research. There was a serious shortage of basic scientific equipment and necessary funds.

As soon as the People's Republic was founded, the government devoted much effort to the development of science and technology. First, scientific and technological organizations were set up. The Chinese Academy of Sciences was established in November 1949, followed by a number of scientific and technological research and experimental organizations in various industrial departments and in the provinces, cities and prefectures. At the same time, reform was introduced in the scientific and technological education system by realigning and restructuring the departments and faculties in the institutions of higher learning, thus creating favourable conditions for the training of a large contingent of scientific and technological personnel. By the middle 1950s, there were already 840 scientific and technological research organizations and over 400,000 persons engaged in scientific and technological work. At that time, China was in the First Five-Year Plan

period, and the state put high demands on the scientific and technological work so as to survey and explore China's resources and transform and improve the national economy.

The Central Committee of the Communist Party of China convened a conference on the question of intellectuals in November 1956. The conference fully affirmed the intellectuals' role in the cause of building socialism and decided on a correct policy towards them. It noted the pivotal role that science and technology would play in China's modernization and called upon intellectuals to advance on to science. Subsequently, a commission was formed under the State Council to map out plans. More than 600 scientists and other specialists across the country were invited to draw up China's first plan for the development of science and technology, namely, the National Plan for Long-Range Development of Science and Technology 1956-67. In light of the requirements of the country's economic construction and national defence the plan had in it 57 projects covering the major topics in basic research, applied research and developmental research. It was under this plan that a number of new scientific and technological undertakings and industrial branches came into existence and grew. They included semi-conductor and computer technology, electronics, technology on automation, atomic energy and jet propulsion.

However, poor leadership, exaggerating the achievements and attempts at rash progress came about in 1958 and 1959, disrupting the normal order of scientific and technological work.

In June 1961, the State Scientific and Technological Commission and the Chinese Academy of Sciences finalized a document entitled Fourteen Suggestions Concerning the Present Work in the Natural Science Research Institutes. The following year, the State Council convened a conference on scientific and technological work, criticizing "Left" ideology and practice in the scientific and technological field since 1958. At the same time, the State Scientific and Technological Com-

mission drew up a new ten-year plan for scientific and technological development that covered 374 key research items, of which 333 were urgent problems in economic and defence construction and 41 basic theoretical topics. By November 1964, more than 3,000 new scientific and technological results had been registered with the commission.

(2) Second stage (1966-76).

The ten-year "cultural revolution" that started in 1966 wrought havoc with China's science and technology. The two counter-revolutionary cliques, the Lin Biao clique and the "gang of four", carried to the extreme the "Left" ideology and policies that had surfaced in the scientific and technological field in the late 1950s. They denied the scientific and technological achievements in the preceding 17 years and refused to recognize science and technology as part of the productive forces. They brought the scientific and technological work to a standstill by disbanding scientific research institutes, destroying scientific and technological equipment, experimental centres, scientific and technological data and disrupting normal work order. They attacked and persecuted scientists and technicians. The scientific and technological contingent China had taken pains to train over the years was so victimized that even its very existence was in danger.

The counter-revolutionaries undermined the Party's policy of letting a hundred flowers blossom and letting a hundred schools of thought contend, wilfully put political labels on natural sciences and accused people with differing academic views of being "elements who oppose the Party and socialism". As a result, the mode of learning was poisoned, and academic ideas were stifled. They also opposed learning from scientific and technological achievements abroad and pursued a policy of shutting China off from foreign contacts. The result was that China fell increasingly behind developed countries in scientific and technological levels.

Chinese scientists and technicians fought back against the perverse acts of Lin Biao and the "gang of four". Despite the

difficulties, they remained at their posts and carried on their work. Zhou Enlai, Deng Xiaoping and other comrades did much to protect China's science and technology.

In January 1970, Comrade Zhou Enlai said, "The Academy of Sciences should raise its level of scientific research while linking its work with realities. While studying basic theories, it should advance from practice to an appropriate level of theory." On July 23, 1972, he wrote a directive on a report about studying basic theories: "The Scientific and Educational Group and the Academy of Sciences should discuss this matter and carry out their decisions in earnest. Don't take it lightly as if it were a floating cloud; the moment it drifts past, it is forgotten for good."

When Comrade Deng Xiaoping was in charge of work in the Central Committee of the Chinese Communist Party in 1975, he made readjustments in the scientific and technological field. Acting in accordance with the policy of the Central Committee of the Chinese Communist Party, Comrade Hu Yaobang likewise took initial steps to improve the work of the Chinese Academy of Sciences. In the Outline Report he submitted to the Central Committee, he made a penetrating analysis of the problems in the scientific and technological field and proposed solutions to them. However, the work of consolidation was soon interrupted by the "gang of four".

(3) Third stage (1977-80).

The downfall of the "gang of four" in 1976 brought new life to China's science and technology. The Party Central Committee took a number of steps to boost science and technology although many other things also demanded attention at the time.

First came consolidation. Many administrative agencies, scientific institutes and academic institutions were restored and rebuilt in a short time. The State Scientific and Technological Commission and its subdivisions in various localities were reinstated; so were the important scientific research institutes in various departments and areas. The China Associa-

tion for Science and Technology and a number of other specialized societies set about their work with enthusiasm.

Secondly, the Party's policy towards intellectuals was vigorously carried out. Slanders against them were repudiated, and many scientists and technicians were rehabilitated. Talented people returned to their scientific and technological work. In 1978, positional titles for scientists and technicians were reinstated. An examination system was introduced, and scientists and researchers were assured that they would have five-sixths of their working hours to be devoted to professional work.

Thirdly, a new plan for the development of science and technology in China was hammered out. More than 20,000 scientists, specialists and other people deliberated on a programme sponsored by the State Scientific and Technological Commission. They came out with the draft Outline National Plan for the Development of Science and Technology 1978-1985.

The Party Central Committee called the National Science Conference in March 1978, attended by more than 6,000 delegates. The conference repudiated the "Left" line in the scientific and technological field, proposed a series of important guidelines and policies for the development of China's science and technology, and adopted the Outline National Plan. It cited 7,657 scientific and technological achievements and commended 862 advanced collectives and 1,192 outstanding individuals.

Speaking on behalf of the Party Central Committee, Comrade Deng Xiaoping told the conference that science and technology is part of the productive forces and that the overwhelming majority of the scientific and technological personnel in China belongs to the working class. His words clarified the confusion created by Lin Biao and the "gang of four" on these two vital questions and encouraged the Chinese scientists and technicians to greater efforts. This has given a sound base for the development of China's science and technology.

The Outline National Plan for the Development of Science and Technology 1978-85 was formulated in accordance with the long-range as well as immediate requirements of the growing national economy and in conformity with the characteristics and trends of scientific and technological development in modern times. Guided by principles of overall consideration, all-round arrangement and ensuring success of key items, the plan included research tasks in 27 spheres — such as natural resources, agriculture, industry, national defence, transport and communications, oceanography, environmental protection, medicine and public health, culture and education, finance and trade — in the basic and as well as the technological sciences. Of these research tasks, 108 items were chosen as key projects to be undertaken in the next eight years. Emphasis was placed on eight general areas of science and technology: agriculture, energy, materials, electronic computers, laser, space science, high-energy physics and genetic engineering. The aim was to master important new technologies and set the pace of an all-round development of science.

Progress was made in many fields of science and technology in the two or three years following the conference on science. Statistics show that 3,270 important scientific and technological results were reported in 1979 by the ministries under the State Council and the 29 provinces, municipalities and autonomous regions.

In retrospect, there were some attempts at hasty results and unrealistic goals during the science conference with regard to the scale and speed of scientific and technological development and the proposed large-scale research projects.

Major adjustments and reforms have been made in China's scientific and technological field in line with the policy of readjustment, restructuring, consolidation and improvement since the Third Plenary Session of the 11th Central Committee of the Communist Party of China. New ideas have been advanced and new measures adopted in the guideline for the development of science and technology and in the scientific

and technological plans and management system. Scientific and technological work is now making steady advances in China.

2. MAIN ACHIEVEMENTS AND PROBLEMS

(1) Main achievements.

Despite setbacks, China's science and technology has made important progress in the 30 years since the founding of the People's Republic. First of all, a scientific and technological force has come into being. It is of a fairly high level in both quantity and quality and covers nearly all branches of science. In 1980, there were 5.296 million scientists and technicians in the state-owned units of whom 330,000 were engaged in scientific research. Teachers of natural science and technology in the institutions of higher learning totalled 170,000, one-third of whom devoted part of their time to scientific research. A large number of scientific and technological research institutes, academic organizations and experimental bases have been established at the national and local levels. They have made some achievements to their credit. In addition to the Chinese Academy of Sciences and its branches and affiliated research institutes in various places, there are the Chinese Academy of Agricultural Sciences, the Academy of Forestry Sciences, the Academy of Geological Sciences, the Academy of Medical Sciences as well as specialized research groups under the control of various departments and localities. The China Association for Science and Technology includes nearly 100 natural science societies and research organizations. These institutions have undertaken large-scale researches and experiments on badly needed major projects in the national economic and defence construction and investigated and studied China's natural resources and environment. They have achieved a number of scientific results up to advanced world levels, and created new products and technologies marked with their own

characteristics, thus obtaining remarkable economic returns in production.

Agriculture has been regionalized in China. Comprehensive data on agricultural regions have been compiled and a number of fine strains of wheat, rice, cotton, tobacco and domestic animals produced. Hybrid rice has been sown in 70 million *mu* of land, with an increase of 10-30 per cent in output. The popularization of the new cotton strain, Lumian No. 1, in Shandong Province has boosted the output by 25 per cent and income by 300 million yuan. The oriental grasshopper and the wheat stripe rust have been brought under control and the technique of biological control of plant diseases and insect pests has become widely followed. Important achievements in research have been reported on the improvement of saline and alkaline land and other soils.

In industry, the achievements include the manufacture of complete sets of equipment for producing 300,000 tons of synthetic ammonia or 240,000 tons of urea a year, the successful trying out of the technologies of making butadiene rubber and heavy water, and the developed technology of exploiting oil in continental strata. Important progress has been made in the multiple-purpose utilization of the associated ores in Panzhihua, Baotou and Jinchuan. The recovery rate of platinum, palladium and other precious metals has been raised to 75 per cent as against 49 per cent previously, and the recovery rate of cobalt doubled. Gratifying results in research have been reported on the extraction of potassium from the Qarhan Salt Lake in Qinghai. Great progress has been registered in finding new materials for national defence and civilian use. The more than 600 new materials needed for the manufacture of China's long-range missiles and carrier rockets are all made in China. Many important scientific results have been achieved in the textile, food and other light industries. The successful manufacture of getter, for instance, creates a favourable condition for the development of China's electronics industry; it extends the service life of China-made television

picture tubes from 2,000 hours to 8,000 hours. The successful manufacture of fructose from starch, carbohydrase and glucoseisomeric enzyme blazes a new trail for the solution of the sugar problem in China. According to statistics by the Shanghai Textile Bureau, the increased output value as a result of technological progress in the city's textile industry in the past 31 years amounted to 30 per cent of its total output value.

In medicine, needle-induced anaesthesia, microsurgery, the cure of extensive burns, the prevention and control of snail fever, the early diagnosis of liver cancer, esophageal cancer and nasopharyngeal cancer have all reached advanced world levels. On the basis of long-time investigation and study, basic knowledge of the spreading and distribution pattern of 14 malignant tumours has been acquired and a volume entitled *An Atlas of Malignant Tumours in the People's Republic of China* and other literature have been compiled.

In the area of new technology and national defence, China has established and developed such fields of science as atomic energy, jet propulsion, electronics, computers, automatic control, laser and infrared ray. The successful tests of atomic and hydrogen bombs and missiles and the launching and recovery of man-made earth satellites marked a new height in China's development of science and technology.

In basic research, good results have been attained in theoretical mathematics, high-energy physics, structural chemistry, geoscience and bioscience. The straton model created by Chinese scientists won favourable comments in the international science community. China was the first country to synthesize insulin. At the end of 1981, China succeeded for the first time in the world in the total synthesis of yeast alanine transfer-ribonucleic acid. This achievement places China among the advanced countries of the world in synthesizing biological macromolecules.

(2) Main Problems.

China has indeed made progress in science and technology. But, strictly speaking, the speed was none too rapid. The reason had to do with leadership and management in the scientific and technological community in addition to the "Left" errors in the over-all guidelines as mentioned before.

(a) Science and technology were not closely coordinated with economic construction.

On the whole, China's science and technology was only loosely coordinated with the development of the national economy. The two did not go hand in hand; they actually constituted two separate "skins". Departments or trades within the national economy paid little attention to exploring the potential of science and technology, with the result that their production technologies and labour productivity rose so slowly as to remain backward for a long time. On the other hand, the research departments in working out plans paid insufficient attention to the needs of the national economy, dwelling upon too many isolated uncoordinated items and giving little consideration to the over-all need. In addition there are problems in the pricing and taxation policies. All this has prevented most research results from being applied to production.

(b) The scientific and technological management system was not rational enough.

In the management system, the control was over-extended and rigid to the extent that the research institutes did not have the necessary decision-making power and that their research results were made available free of charge. This affected adversely the initiative of the research staff. There was little coordination among different research departments, resulting in redundancy and waste. Besides, the research structure itself was not rational enough, and development research was weak. In the allocation of funds for scientific research, there were also problems which involved the amount of funding, the allocation channels and the way they were used.

(c) There was a serious shortage of scientists and technicians.

The ten-year turmoil stunted the intellectual growth of a whole generation. It is estimated that China trained at least one million less college graduates in the decade than she should have done. The number of scientists and researchers in China, in terms of her huge population, was tens of times fewer than that in the developed nations. New blood was badly needed in many research departments and in important disciplines, as many of their members were aging. Moreover, as a result of poor management, many talented people were doing what was outside their field.

(d) There were shortcomings in technological imports.

In the past, enormous losses had resulted from the over-emphasis on self-reliance to the neglect of learning from other countries' scientific and technological achievements. In recent years, some branches of the government went from one extreme to the other, and paid so much attention to things foreign that they neglected our own scientific and technological achievements. They imported complete plants and equipment, but very little technological know-how. Even if some technologies were imported, little effort was made to study, digest and assimilate them.

These problems were drawing extensive attention among scientific and technological personnel. Following the policy of readjustment, restructuring, consolidation and improvement, the scientific and technological departments were seeking a better way of doing things while resolving the problems step by step.

II. PRINCIPAL GUIDELINES AND POLICIES FOR THE DEVELOPMENT OF SCIENCE AND TECHNOLOGY IN CHINA

1. POINTS OF DEPARTURE IN THE FORMULATION OF GUIDELINES AND POLICIES

(1) Science and technology must grow in keeping with national conditions.

The guidelines for the development of science and technology must be formulated, not by simply copying what other countries have done, but by proceeding from China's national conditions. They must be based on her natural conditions, and economic and social development, the foundation of science and technology, the educational level of her people and her cultural heritage, etc.

What are China's basic national conditions? China has abundant natural and human resources, a favourable climate, industrious and intelligent people, the superior socialist system, a sizable material and technical foundation and a great store of experience, both positive and negative. These are favourable conditions for the development of science and technology in China. On the other hand, China has a population of one billion, 80 per cent of whom are peasants. The foundation of the national economy is weak and its level of development low. In 1980, per-capita income was only 372 yuan. Educational work is backward in China and there is a lack of scientific and technological personnel as well as of experience in modern construction and management. All this means that China cannot develop science and technology at a very fast speed, or on a large scale or undertake too many large scientific and technological projects simultaneously. It is both impossible and unnecessary to seek too ambitious goals or expect too quick results. Besides, as China is a vast country her social and economic development is uneven, and advanced areas exist side by side with backward ones. This means that China's scientific and technological development cannot be uniform and that the structure of science and technology must be multi-layered.

(2) Science and technology must be coordinated with economic and social development.

Science and technology is part of the productive forces. Fundamentally speaking, scientific and technological achievements should first of all find expression in the economic results of social production. Scientific and technological work

in China must serve her economic construction, for which policies and plans are being readjusted at present. The goal set for the end of this century is the attainment of a society of moderate wealth. In economic construction, China is exploring a new road that calls for smaller investment and accumulation but yields better results. Emphasis in the targets of economic growth will be shifted from higher output value, larger production figures and faster speed to better quality, more varieties and designs, lower consumption of energy and raw materials and costs. Increase of production will be achieved mainly by tapping the potential of existing enterprises, replacing their equipment or carrying out their technical transformation instead of new, additional capital construction. The clear-cut tasks all this imposes on China's science and technology are to serve better her industrial and agricultural production, technical transformation and technological progress in enterprises, economic and social progress in general and improvement of people's livelihood.

(3) Importance must be attached to learning from other countries' advanced experience and paying attention to the trends of world science and technology.

Since China's science and technology, like her economy, is comparatively backward, it should be a long-term task for her to learn from other countries' advanced science and technology while energetically developing her own. A study should be made of the roads of scientific development followed by different types of countries, the problems they have encountered, and the trends of world science and technology so that China will not shut herself off from the outside world.

2. PRINCIPAL GUIDELINES AND POLICIES FOR THE DEVELOPMENT OF CHINA'S SCIENCE AND TECHNOLOGY

The National Conference on Scientific and Technological Work in December 1980 discussed the guidelines for the devel-

opment of China's science and technology. Following the instructions of the Central Committee of the Chinese Communist Party the conference set forth the guidelines at present as follows:

(1) Science and technology must advance in coordination with social and economic development, the primary purpose being the acceleration of economic development.

In today's world, science and technology, in permeating all aspects of economic and social life, has become a mighty force propelling society as well as its economy forward. The emergence of a series of new industries in recent years has all been based on the latest science and technology. The increase in labour productivity in developed countries relies mainly on new discoveries in science and technology. For many years, economic construction in China has been plagued with high consumption, high costs, low efficiency and poor quality. An important reason has been the failure to stress combining science and technology with economic production. The state must therefore pay great attention to the factor of science and technology when it formulates policies and plans for economic and social development, such as the determination of production targets, rational utilization of resources, rational apportionment of productive forces, changes in the structure of production and consumption, restructuring of enterprises, adoption of technical and economic policies, population control, employment structure, environmental protection, labour safety, educational reforms, etc. At the same time, the development of science and technology should base itself on the requirements of economic construction. The determination of priority in scientific and technological projects, the scale and speed of development, and the allocation of funds and personnel for each project should all be closely coordinated with social and economic development so that the two can grow side by side. This guideline as outlined above must be embodied in both long-range and annual plans. China's development plans should be comprehensive ones under which

economy, society and science and technology do not develop separately or independently but grow together in an organic way. In the past, a great deal of manpower and money has been devoted to the research and development of sophisticated sciences and technologies which, of course, contributed materially to the modernization of China's national defence. Unfortunately, this effort did not play a marked role in promoting economic development. Basic production technologies in the national economy did not receive enough attention or support and thus remained backward for a long time. This sad phenomenon reveals the defects in the economic management system, such as the lack of competition in production and the neglect of economic results. It also reveals that the guideline for the development of science and technology is anything but clear. Of course, there will be the continued development of sophisticated sciences and technologies directly related to economic construction and the modernization of national defence; it is wrong to make light of the work in this respect. Nevertheless, main efforts must be concentrated on the research and development of production technologies while putting as many achievements in military science as possible to civilian uses.

(2) Emphasis must be placed on the researches into production technologies, in order to select the correct kind of technologies and create a rational technological make-up.

Experience at home and abroad shows that production technologies must be improved upon in order to promote the growth of the national economy. The researches into industrial and agricultural production technologies should aim at the manufacturing of good but inexpensive commodities for the market. A common shortcoming in the past scientific and technological work, and economic work too, was the lack of coordination among scientific research, designing, production and consumption. To strengthen production research, it is necessary to combine scientific research closely with designing and production and make them a complete process;

to pay special attention to the technical transformation of existing enterprises; to make technical assessment and economic analysis of all production technologies and pay attention to economic results; and to make overall arrangements and rational disposition of the basic research, applied research and developmental research in the light of the immediate and long-range requirements. Developmental research, a weak link in the country, should be greatly strengthened in the spirit of China's new principles governing the development of science and technology. Generally speaking, industrial and mining enterprises should emphasize developmental research. The research institutes of various governmental agencies should regard developmental research as an important task while undertaking applied and basic research. The Chinese Academy of Sciences and institutions of higher learning in the country should also step up basic and applied researches needed for the development of production technologies.

Because of the uneven social and economic development in China, the make-up of production technologies in industry and agriculture will, for a very long time to come, be a multi-layered one where automation, mechanization, semi-mechanization and manual labour exist side by side. Advanced, intermediate and traditional technologies must be combined in a planned and organic way. Too many capital-intensive or energy-intensive technologies cannot possibly be adopted. The technologies which should be energetically developed are knowledge-intensive but require relatively small capital and consumption of energy. For the immediate future, some production departments should emphatically develop labour-intensive technologies.

In selecting production technologies, an overall analysis and comparison must be made to see whether they can make full use of local resources, save energy and raw materials, create more jobs, improve the standard of living, promote exports, raise labour productivity, prevent pollution of the

environment, and forestall the slow destruction of earth life.

(3) The development and popularization of technologies must be promoted in industrial and mining enterprises.

The development and popularization of production technologies in industrial and mining enterprises is an important channel for the direct conversion of science and technology into a productive force. Only when industrial and mining enterprises extensively introduce and bring about technical innovations and progress can they continually improve product quality, increase the varieties and designs of their products, speed up the turning out of new products and make more economic gains. Large enterprises and medium-sized and small enterprises with qualifying conditions should all strengthen developmental researches into production technologies.

In undertaking technological research, the industrial and mining enterprises must make full use of their scientific and technological forces and material conditions, pay attention to practical results and expand research step by step. They should not blindly go after what is sophisticated. Instead of trying to tackle all problems simultaneously, they should exploit their own advantages and improve their coordination with other enterprises, colleges or scientific research institutes. Wherever conditions permit, associations embracing scientific research and production shall and must be established. Scientific and technological personnel in research institutes and the institutions of higher learning should actively help industrial and mining enterprises with their research work. They should be encouraged to take up part-time jobs or act as advisers and consultants for factories and mines.

(4) It is necessary to ensure that basic research will expand steadily.

A country's economic development and technological progress requires reserve strength in its basic scientific research. During the "cultural revolution", China's basic research was seriously undermined. Restored in recent years, it has been

growing somewhat. But, as the state cannot afford to allocate enough funding in science and technology in the immediate future and as the developmental research of production technologies has to be strengthened without delay, state investment in basic research should remain stable and increase only gradually. At present, emphasis should be placed on strengthening and improving the basic research closely related to economic construction so as to obtain better results. Generally speaking, the results should, in the final analysis, be reflected in the outcome of its application to the economy. Basic research other than that directly applicable to the economy should remain stable. In the coming decade, it is desirable to launch few large scientific research projects requiring enormous investment.

(5) The grasp and assimilation of foreign scientific and technological achievements is regarded as an important way to develop China's own science and technology.

For the development of China's science and technology, it is a easier, short-cut way to study actively, digest and assimilate other countries' advanced scientific and technological achievements suitable to China's conditions while maintaining her own independence, initiative and self-reliance. This will save much money and time and, in the meantime, promote the growth of China's own scientific and technological force. Although China has achieved scientific and technological results up to world standards in some areas, on the whole she still remains in the stage of development where many foreign achievements need to be mastered and assimilated. To learn conscientiously from others is a necessity.

Of course, good judgment must be made in choosing what to learn from foreign countries in science and technology. The correct attitude is to proceed from China's fundamental economic and technical conditions and to avoid taking whatever happens to come by or happens to be offered. In particular, there must be no attempt to take only what is most up-to-date.

In trying to introduce foreign technologies in the past, China imported complete plants and equipment in most cases, causing much waste but gaining little technologically. In the future, the import of complete plants should be reduced drastically in favour of the import of technology. There is no need to buy technologies that can be easily mastered through study of technical literature or through international academic exchange and co-operation. Work in this area should be enhanced.

To import advanced foreign technologies, it is necessary to make careful plans as to how to digest, assimilate and develop them, how to make auxiliary equipment and organize technological transfer, how to combine learning from other countries with scientific research at home and how to apply it to the technical transformation of existing enterprises in China. A task of this kind is more delicate and complicated than the import of technology. In other countries, three or five dollars or even more are required to digest and assimilate a technology for every dollar spent on its import. Unfortunately this work has been neglected in China for a long time. The fundamental purpose of learning from foreign countries in advanced technologies is to raise China's own scientific and technological capacity and not to weaken or relax her own scientific and technological research work. Certainly, it is improper to concentrate attention on things foreign to the neglect of China's own scientific and technological resources.

In addition, it is necessary to continue some of the guidelines and policies that have in the past proved effective in advancing science and technology in China. For instance, the policy of letting a hundred schools of thought contend must be adhered to.

The policy of letting a hundred schools of thought contend is a correct policy which enlivens academic thinking, gives scope to the initiative and creativeness of scientific and technological personnel and promotes a vigorous development of science and technology. The questions of right and wrong

in scientific and technological matters should be settled through free discussion in academic circles and through scientific and technological practice. Free discussion among different views and schools in science should be encouraged. It is wrong for a majority to coerce a minority into submission, for a superior to suppress a subordinate or for an authority to stifle some new ideas. Practice over the years shows that it is harmful to the development of science if administrative means is used to impose a viewpoint or a school of thought and prohibit another viewpoint or school of thought. Chinese scientists and technicians are encouraged to study Marxism-Leninism and Mao Zedong Thought and use the principles of dialectical and historical materialism to guide their scientific experiments, but it is impermissible to replace serious academic research with simple philosophical concepts.

Finally, it is also necessary to strengthen the popularization of science and technology and raise the educational level of the entire nation. This, too, is an important principle guiding the development of China's science and technology.

First of all, leading cadres at every level should improve their scientific knowledge and gradually become knowledgeable and professional. At the same time, the masses of cadres, workers and peasants should raise their scientific and educational level. The lectures and courses sponsored by various departments and localities in recent years have achieved good results in promoting scientific and technological knowledge.

As economic construction continues to make progress, work in this field should be strengthened and expanded further. It is necessary to establish and then improve organizations for the promotion of science and scientific and technological centres, sponsor more science exhibitions and lectures, produce more science films and T.V. shows, strengthen and improve the publication of science books, and organize a greater variety of mass activities to popularize science and technology.

III. TRAINING OF SCIENTISTS AND TECHNICIANS

1. HISTORICAL BACKGROUND

In the 31 years since the founding of the People's Republic, China has trained a sizable corps of scientists and technicians. Working hard and making important achievements in all fields, they have played a positive role in ensuring the smooth development of the socialist cause of construction. However, China's technical staff is far from adequate, in both quantity and quality, to meet the needs of her social and economic development. There is a shortage of high-level scientists and engineers of all sorts as well as of specialists in the scientific management of the economy. There are at least three reasons for the shortage. (a) The training of scientific and technical personnel was disrupted during the ten years of internal chaos. (b) The present educational training system and the scientific and technical personnel system are far from perfect. Even today China does not have a complete set of rational systems for training, reviewing, recommending, employing, promoting and transferring scientific and technical personnel. (c) Some leading departments of the state have failed to understand fully the importance or urgency of training enough scientific and technical personnel. The training and use of talents has been hindered as a result. Even existing talents have not been able to show their full ability.

The situation described above is inseparable from the mistakes committed during the past 31 years in implementing the policy towards intellectuals.

In the early post-Liberation years, the Central Committee of the Communist Party of China formulated a policy of uniting, educating and remoulding the intellectuals from old society. The Party was entirely correct. Having taken part in the political and study movement in those years, the intellectuals made great progress both politically and ideologically. On the question of intellectuals, the Party Central Committee

called a meeting in 1956, at which Comrade Zhou Enlai, on behalf of the Central Committee, declared that most of the intellectuals "have become government functionaries who are working for socialism and therefore have become part of the working class". He called upon both Party and government organizations at all levels to improve the employment of intellectuals, give them full trust and support, and provide them with good working conditions as well as good remuneration. He also asked Party organizations to make positive efforts to recruit new Party members from among intellectuals. The meeting gave a correct assessment of the class attributes of all intellectuals, including scientists and technicians, and their important position and role in the socialist construction. It has been of tremendous and profound significance for encouraging scientists and technicians in China.

After 1957, however, the whole intelligentsia was labelled as "bourgeois intellectuals", and an erroneous slogan of "depriving the intellectuals of their knowledge as capital" was raised. Many scientists and technicians were attacked and their enthusiasm for work was dampened. It was during this period that giving arbitrary orders in violation of scientific laws became rampant in all fields of work, causing great damage to socialist construction.

A conference on the scientific and technical work was held in Guangzhou in 1962. Comrade Zhou Enlai severely criticised the "Left" mistakes committed on the question of intellectuals after 1957, reaffirming that the overwhelming majority of the intellectuals was patriotic and progressive and that, having been working for socialism, they were part of the working people. In his report on the government work to the Third Session of the Second National People's Congress held in the same year, he again pointed out that it was incorrect to regard intellectuals from the old society as bourgeois.

However, the correct policy towards intellectuals was not implemented well in practice. During the socialist education movement of "four purifications" in the fields of politics, ideol-

ogy, organization and economy which started in 1963, the intellectuals were once again targeted for examination and criticism. This "Left" error went to the extreme during the "cultural revolution".

Since the Third Plenary Session of the 11th Central Committee of the Communist Party of China, the central leadership of the Party has repeatedly stressed the importance of implementing the policy towards intellectuals and adopted a number of important measures. They included the redress of trumped-up charges against intellectuals, the re-establishment of an evaluation system in assessing their professional proficiency, the conferment of professional ranks and titles on them, the re-establishment or introduction of normal procedures for scientific research, the improvement of working and living conditions for scientists and technicians, their participation in making policy decisions and their promotion to leadership positions. These measures have helped find a positive and well-considered solution to the problems in the work concerning the intellectuals. The political status of the scientists and technicians has been greatly improved; so have been their working and living conditions. A great number of them with professional competence as well as socialist consciousness have been promoted to leadership positions at various levels. All of these measures have generated the enthusiasm of scientists and technicians for work.

The experience and lessons of the past 31 years show that China's scientific and technological work, as well as her entire economic construction, would develop rapidly whenever the correct policy towards intellectuals was adhered to and would be undermined or stagnated whenever errors were committed on questions concerning the policy. In a certain sense, many of the present problems in China's economic construction are the result of deviation from a correct policy towards intellectuals over a long period of years. However, contempt for knowledge and discrimination against intellectuals can still be found today. There are still a few problems regarding

the training and employment of intellectuals and their pay and living conditions. These problems must be resolved with unremitting efforts.

2. PRESENT CONDITIONS CONCERNING SCIENTISTS AND TECHNICIANS IN CHINA

The total number of scientists and technicians in China rose from more than 50,000 in 1949 to 425,000 in 1952. By 1966 when the "cultural revolution" began, the total number of scientists and technicians working in the fields of natural sciences grew to 2.458 million including 16,000 post-graduates and 1.13 million university and college graduates (sciences, engineering, agrosociences and medical sciences). During the "cultural revolution", 106 institutions of higher learning were eliminated, merged or moved from their original sites, 198 secondary technical schools stopped functioning; so did almost all part-time study and part-time work schools, agricultural middle school and other technical schools. That is why there is such a serious shortage of young and competent scientists and technicians today. The ratio of scientists and technicians in the industrial and communications departments to their total labour force dropped from 5.7 per cent in 1965 to 3.9 per cent in 1979.

In 1979, the total number of natural scientists and technicians was 5.44 million, and 4.7 million of them were working in the state-owned organizations. They included 38,000 senior scientists and technicians (with or above the rank of associate research fellows and professors and senior engineers), 440,000 middle-level scientists and technicians (assistant research fellows, lecturers and engineers) and 4.22 million primary scientific and technical personnel. Most of these people were trained after Liberation, and those coming from old society accounted for only about 1 per cent of the total.

3. PROBLEMS IN THE TRAINING AND MANAGEMENT OF SCIENTIFIC AND TECHNICAL PERSONNEL

(1) Insufficient means of training, slow growth, and a shortage of young and competent scientists and technicians.

The cultivation of scientific and technical personnel depends on education. For a long time problems existed in China's higher education and secondary technical education, and the cultivation of talents has lagged behind the demand. China has a population of one billion, but the annual number of first-year students in institutions of higher learning is only 300,000 or thereabouts. The number of students in institutions of higher learning per thousand of Chinese population is not only dozens of times smaller than in the developed countries, but also smaller than in some of the developing countries in the Third World. The situation has not been much improved. The structure of secondary education in China is equally unsatisfactory. In 1978, there were 64.58 million students in China's secondary schools, while only 889,000 were studying in the secondary technical schools. Moreover, opportunities for advanced education or training were scarce for employed scientists, technicians, workers and staff. The road to success through self-cultivation was rarely open to workers and staff and young people. Attempts have been made in recent years to find many ways of training and enlisting talents, but there has not been a unified policy or a system to guarantee their success.

Most of the 1.5 million middle-aged scientists and technicians trained prior to the "cultural revolution" have worked for 20 to 30 years. Working at the forefront of scientific research and production, they are now shouldering the task of solving key problems. However, handicapped by an imperfect review and promotion system, more than 80 per cent of them still hold the rank as primary technicians. Only 10 per cent or more have acquired the rank as middle-level scientists or technicians. Most of the senior scientists and tech-

nicians were trained before Liberation and their average age is around sixty. An important reason for this phenomenon lies in the failure of administrative work to meet the needs of promoting scientific and technological work.

(2) A personnel management system too rigid and pervasive to suit the characteristics of scientific and technological work.

The management of scientific and technological personnel in China is a mere copy of the management of Party and government cadres. Their jobs are assigned according to a unified state plan. Under this system, the agency that administers personnel does not coordinate with the department that employs personnel. The latter does not have the necessary power to choose the kind of persons it wishes to employ, while the former usually assigns jobs according to its personnel files, statistical tables and reports. Once a person is assigned a job, the assignment is practically over a lifetime during which the person is owned by the unit which provides the job. Under such circumstances, some units are badly in need of talents, while others have more than they need. Some people cannot find proper jobs for which they are well qualified, while others are doing jobs about which they know little. There is a great deal of waste in trained personnel.

(3) The impossibility of transferring talents from one unit to the other in a rational way.

The transfer of scientists or technicians from one unit to the other is, normally speaking, an important means to broaden their vision, enrich their thoughts and help generate their creativity. A research establishment in science should provide others with part of the personnel it trains while reserving for itself an appropriate number of staff as a backbone force in its research work. It also should add new blood through recruitment among other establishments. In this way, the whole staff of the establishment will remain vigorous and energetic while the total number will not be enlarged. The scientists and technicians will thus increase their knowledge

and enhance their abilities. The content of their research will be enriched, while the scientists and technicians themselves will score new achievements. However, under the present personnel system, scientists and technicians are not allowed to change places of work in a rational way. Those who are needed and wanted cannot be recruited, while those who are not needed or wanted cannot be transferred to where they are. This situation has led to the overstaffing of many scientific research institutes.

(4) Many scientists and technicians have functions but no powers.

In carrying out the modernization programme, a system of responsibility should be established so that all scientists and technicians have their functions, responsibilities and powers. Those who have distinguished themselves should be rewarded according to their contributions. As to those who fail to perform their duties, they should be held responsible for the damage they have done. Unfortunately, scientists and technicians in many units have no power to decide technical matters. On a number of major engineering projects, whatever leaders say counts while the engineers and technicians are brushed aside. Under such circumstances, errors are difficult to avoid and the enthusiasm of the scientists and technicians is dampened, thus bringing losses to the cause of modernization.

4. HOW TO IMPROVE THE METHOD OF TRAINING AND MANAGING SCIENTIFIC AND TECHNOLOGICAL PERSONNEL

In order to promote a stable and sustained development of science and technology in China, it is essential to strengthen the building up of a strong corps of scientists and technicians and to solve, gradually, the problems of shortage, incompetency, improper use and mismanagement of them.

(1) A plan must be drawn up for the training of scientists and technicians as part of a long-term programme. All possible means should be used to enlarge the enrolment of the institutions of higher learning. Institutions of higher learning and research institutes should take positive steps to train post-graduates if conditions permit. A system of providing advanced studies for working scientists and technicians should be instituted and various steps should be adopted to train scientific and technical management personnel. The habit of promotion through seniority should be abolished, and bold steps should be taken to promote young and middle-aged scientists and technicians if they prove to be able. Emphasis should be laid on the training of those who, having professional proficiency, are most suited to do pioneering work in scientific and technological research and who may, in a short period, become authorities or leaders in their chosen fields of learning. Scientists and technicians must be sent abroad for advanced studies according to plan under the favourable conditions created by international academic exchanges.

(2) By gradually changing the present method of managing scientific and technological personnel, a management system must be established in accordance with the demand of modernization and in conformity with the characteristics of scientific and technological personnel and the ways of training them. An end must be put to the habit of obeying only the leaders, but never the specialists. In the course of reforming the economic systems, answers should be found to the questions of how to extend the power of research institutes in controlling their own personnel and how to transfer in a rational way scientists and technicians from one unit to the other according to their lines of work.

(3) Conditions must be created for scientists and technicians to play their full role, especially in making policy decisions. Specialists should be invited to take part in making important policies and decisions concerning the modernization programme — from major policies and principles that have im-

portant bearings on the national economy and the people's livelihood to decisions on specific construction projects and technical measures. The scientists and technicians should be given not only necessary functions and responsibilities but also decision-making powers.

(4) It is necessary to carry out uncompromisingly the Party's policy towards intellectuals and attach full importance to their position and role in China's socialist construction. Steps must be taken to eradicate the erroneous attitude of political discrimination against intellectuals, and help improve their working and living conditions so that they will have no worries over the support of their families while they work.

IV. PROBLEMS IN RESTRUCTURING THE SCIENTIFIC AND TECHNICAL MANAGEMENT SYSTEM

For a long time, the administration of science and technology has functioned under a highly centralized leadership. All scientific research institutes have their expenses covered by state appropriations and their achievements are used without extra compensation by all who apply them. Research subjects are decided by the state. All research institutes and all scientists and technicians, whether they work well or not, are sure to share food from the same big pot — to get the appropriations and the pay they usually get from the state. The main defects in this management system are: the laws governing scientific and technological development and economic activities are ignored, control over scientific and technical work is rigid and over-extended, material rewards are neglected and initiative and creativeness on the part of scientists and technicians are restricted. Under such circumstances, research institutes have no independent power to make decisions. A situation like this is unfavourable to the strengthening of leadership over academic work and to a wider applica-

tion of scientific and technological achievements. This system has hindered the development of science and technology in China. It must be gradually changed as the entire economic structure is being reformed.

Externally, the reform of the scientific and technical management system involves problems in the economic management system as a whole. Internally, it involves problems of research establishments, planning, training of personnel, promotion and publicity concerning achievements and funding. The focal point is to solve the problem of how to link science and technology with production closely, turn scientific achievements into productive forces as quickly as possible and enlarge the role of science and technology in the economic and social development. The basic way of conducting the reform is to follow the road of socialization in scientific management according to the laws governing scientific and technological development, and the method of combining the mandatory instructions from the state with economic measures.

1. STRENGTHEN AND IMPROVE THE DIVISION OF LABOUR AND CO-OPERATION AMONG THE VARIOUS SCIENTIFIC RESEARCH DEPARTMENTS

China's scientific research forces are divided among the following five departments:

The Chinese Academy of Sciences and its branches in different localities of China. The academy is a national centre for research work in natural sciences. Its main task is to study and develop new theories and technologies in natural sciences and help the groups concerned solve their major scientific and technological problems for national economic construction, with particular emphasis on basic sciences and elevation.

Scientific and technical research institutes under the ministries and commissions of the State Council as well as

those under provincial, municipal and autonomous regional governments. Their main task is to study applied and developmental sciences, but some of these institutes may also engage in basic research if conditions permit.

Research departments in the institutions of higher learning. These departments are engaged in researches into basic, applied or developmental sciences in accordance with their specialities.

Research departments in factories and mines and in the countryside. Their task is to study applied sciences, develop new products, popularize new achievements and make technical innovations in close connection with their production.

Scientific research departments for national defence. Their main task is to engage in researches into new defence technologies.

Following the principles of concentrating forces, making overall planning, stressing division of labour and individual responsibility and working in co-operation, the research units, described above, can jointly promote sciences and technology in China as they give play to their advantages.

For many years, however, some research units were each trying to become all-embracing. As a result, the forces were scattered and a large amount of work became redundant. The waste in financial and material resources was serious. Therefore, the state agency in charge of scientific and technological work has since proposed that in order to reform the system, stress must be laid on the centralization of macro-management. Major research projects involving several departments must be controlled, organized and coordinated directly by the state so that the personnel, financial and material resources will be employed to maximize results. The division of labour among the research forces of different departments must be readjusted properly under a unified state plan. Local research departments should lay emphasis on solving urgent and immediate problems arising in economic construction and people's livelihood in their own localities. For instance, more

work should be done to solve people's food, clothing and other problems.

To expand research work in enterprises is an important means to strengthen the link between research and production. With the reform of the economic structure, more research assignments will be given to factories and mines. At present, the enterprises themselves do not have normal sources of funding for research work. Without reducing their contribution to the state revenue, some enterprises are now experimenting with setting aside for research purposes part of their funds normally devoted to technical innovation and operating expenses. The research fund may also come from profit retained by the enterprises.

The military and the civilian research forces should join hands in their work. They should have close coordination between them and support each other on projects that will be used for both military and civilian purposes. The goal is not only to produce positive results and but also to extend the scope of their services.

2. EXTEND THE DECISION-MAKING POWER OF RESEARCH UNITS AND INTRODUCE DIFFERENT SYSTEMS OF MANAGEMENT FOR DIFFERENT UNITS

To encourage research institutes to take the initiative in producing better results or more able personnel, it is necessary to increase their decision-making power step by step according to plan. Nowadays, many institutes under the jurisdiction of ministries and provincial and municipal governments are trying to find and experiment with concrete measures to increase the power. The general guideline is that while ensuring the completion of assignments given by the state and other authorities, the research institutes can charge reasonable fees for the jobs of scientific research or development of new products they accept from other departments or enterprises, for the attainments they transfer to other units or for the technical

services they render. They should also have more power in making decisions on personnel and material supplies.

Categories for research projects are complex, and conditions vary greatly from one project to another. Different methods of management should be instituted for different types of research work, and no uniformity should be imposed.

Generally speaking, there are three types of independent research units, and consequently three different methods of management should be adopted. The first type of research unit undertakes basic research or research in major or long-term projects. These units should receive appropriations from the state for their projects, which should be part of the state development programme. The second type undertakes research projects under contracts signed while performing tasks assigned by the state. These units receive some income from fulfilling the contracts. Their expenses should be covered by state appropriations and the funds they themselves have raised. Units of the third type do research mainly in applied and developmental sciences. These can receive income from fulfilling the contracts they have signed or from services they have rendered. Therefore, a method of assuming sole responsibility for their own profits or losses should be adopted for them. The research units attached to factories or mines are not independent, and their expenses should be covered by the related enterprises which utilize the research results.

In the past two or three years, some research units have introduced the responsibility system of management at various levels and obtained positive results. Under this system now being popularized, the economic and technical feasibilities of proposed major projects are first discussed among specialists in the same line of work before decisions are made. Once a contract is signed, the contracting parties must fulfil the obligations as defined in the contract. Having fulfilled the contractual obligation, and received the economic benefits, the research units use the money to strengthen their research work, improve collective welfare, or pay bonuses.

3. REFORM THE PLANNING SYSTEM IN SCIENCE AND TECHNOLOGY

China has drawn up long-term development programmes in science and technology on several occasions. There were failures as well as successes. A main shortcoming was that the development programmes in science and technology were not closely coordinated with those in the national economy. Economic development had little support from the scientific and technological forces while scientific and technological development received no stimulant from economic needs. The result brought losses to both. In order to solve this problem, reforms have taken place in the past few years in the system of formulating plans for the economic, social and scientific and technological development. While formulating the national economic development plans, especially the long-term and medium-term ones, the government has begun to give serious consideration to the application of scientific and technological research achievements. It has made concrete demands on its research departments so that research projects in science and technology more suited to the needs of economic development will be arranged. The method and system of formulating national economic plans and setting objectives are also being changed. A number of measures have been taken to bring the long-term scientific and technological development programme in line with the national economic programme so that the former becomes an organic part of the latter. The scientific and technological departments draw up plans not only for their own research projects but also, jointly with other departments, for application and popularization of scientific achievements. They participate in the review or examination of the plans an industrial department might have for technical transformation. Plans for major research projects are worked out through the co-operation among the departments under the State Council in charge of planning, economic

construction and scientific and technological work. Barriers among different localities and departments are removed.

4. PROMOTE THE APPLICATION AND POPULARIZATION OF RESEARCH ACHIEVEMENTS

China has scored many achievements in scientific and technological research, some of which have produced good results in production. Generally speaking, however, large numbers of scientific attainments have not yet been turned into productive forces to raise the level of social production.

There are many reasons for this. Some research projects, chosen improperly, could not be used in production. More importantly, the economic structure and policies (tax and price policies for instance) have provided no incentive to apply scientific and technological achievements in production. Moreover, there were no normal channels for applying and popularizing the achievements, as research, designing and production departments were not coordinated enough with one another in an organic way to solve every technical problem they faced. Under such circumstances, even if a research project had been completed and a new product developed, the achievement could not but be pigeonholed as an exhibit or a sample because the government did not make arrangements for popularization and because the enterprises themselves had neither the decision-making power nor the economic incentive to apply the achievement. Even if they wanted to, they found no funding, or raw materials.

In order to change the situation, there must be, first of all, a clear purpose for each project. In recent years, it has been repeatedly stressed that scientific research must meet the pressing need of production. Moreover, great efforts are being made in many localities and departments to encourage the integration of scientific research, designing and production. In some cases, a production unit is designated for ap-

plying the result as soon as a research project begins. It is more important for the economic structure and policies to protect the advanced, eliminate the backward, stimulate competition and promote technical progress. Incentive should be provided for the promotion of technical progress through planning, price, taxation, credit and profit retention. This is a complicated question which involves many quarters and can only be solved gradually in the course of reforming the state economic structure. The application and popularization of scientific achievements requires only a small investment, but it can bring large profits. Some provinces, municipalities and departments are now making positive efforts to popularize scientific achievements in close coordination with the technical transformation of the national economy. They do this by providing special funds and materials. Some investment is, of course, needed, but the benefit far exceeds the investment. Many departments and localities are drawing up plans for popularization of scientific achievements and establishing corresponding systems for a smooth transition from research to production.

To encourage scientists and technical personnel to invent and to create, the State Council re-promulgated the Regulations on Awards for Inventions in December 1978 and issued the Regulations on Awards for Natural Sciences in 1980. Nearly 200 inventions and other scientific achievements have been awarded since then.

5. ENCOURAGE TRANSFER OF SCIENTIFIC ACHIEVEMENTS WITH COMPENSATION AND MAKE ACTIVE PREPARATION FOR A PATENT SYSTEM

An important reason for the inadequate application and popularization of scientific and technological achievements in the past was the lack of normal channels for the transfer of the achievements and the absence of proper protection of an

inventor's interests by law. The present practice is the free use of a scientific achievement or a technological invention by all units across the country. As it neither conforms to the principle of distribution according to work, nor encourages competition, nor generates enthusiasm of the research departments or scientists and technicians for better efforts, the practice is not in the interest of the country's economic and technological development. Now many scientific and technological departments and production enterprises are making positive efforts to find ways of making transfers of new techniques and scientific achievements with compensation.

Transfer of techniques with compensation means the kind of business activity whereby a scientific achievement or a production, management, or sale technique is transferred to a user through various forms under terms agreed upon. It has been adopted in other parts of the world for hundreds of years. At present, some Chinese provinces, municipalities and autonomous regions have been trying it out. They have adopted the form of technical transfer contract under which a research institute is required to produce certain desired results in a predetermined time and transfer them to a production enterprise for a certain amount of money to be paid by the enterprise. Other forms of technical transfer have been introduced in a number of localities, such as signing contracts for output quotas, selling products of scientific research, contracting to undertake research projects and offering technical services. Experiments show that most of the forms have produced positive economic results.

In order to encourage the practice of making technical transfer with compensation, China has decided to establish a patent system and joined the United National World Intellectual Property Organization in March 1980. Chinese specialists in law and foreign trade, together with scientists, have formed a group to draft a patent law which will become effective once conditions allow.

6. READJUST AND CONSOLIDATE RESEARCH INSTITUTES

In 1978, there were more than 6,000 research establishments in science across the country at the county level or above. In 1980, the number rose to more than 8,000. Some have organizational setups and receive funding, but they have only a small research staff or no staff at all. Obviously, establishments of this kind cannot undertake any research projects. Considering the country as a whole, the number of research establishments is too large, research forces are too scattered and research projects too repetitious. There is a waste of labour and financial resources. All this is disadvantageous to the development of science and technology. Therefore, the state authorities in charge of science and technology are taking measures to readjust and consolidate the existing research establishments earnestly. Major and selected research institutes are being strengthened so that they will become the backbone in their specialized branches of learning. Research establishments without clearly defined goals or without proper qualifications will be abolished or merged with others. If conditions allow, some of the establishments will be integrated with production enterprises.

In the field of agricultural sciences, the large national research institutes will remain unchanged, but provincial, municipal and autonomous regional establishments are being changed into local research institutes with special, local characteristics arising from local natural conditions, resources and agricultural production. The research establishments at the county or lower levels, totalling about 4,000 in number but lacking research staff, have already become part of the experiment network in agricultural sciences, mainly responsible for experiments, demonstrations and popularization of new achievements.

Major industrial and mining enterprises and specialized corporations are now establishing their own research institutes, laboratories and research groups. Research institutes

and laboratories under some industrial departments that directly serve production will be placed under factories and mines, specialized corporations or industrial organizations so as to change gradually the former practice of setting up research establishments on the basis of administrative system.

7. REFORM THE SYSTEM OF MANAGEMENT OVER FUNDING FOR SCIENTIFIC AND TECHNOLOGICAL WORK

China's funding for scientific and technological work has always been limited and the system of distributing available funds is not yet satisfactory. In 1979, the funds for scientific research in projects for civilian purposes, including operating expenses, capital construction investments and money for new product development, pilot plant production and subsidies for major research items, totalled approximately 3.3 billion yuan, amounting to 0.54 per cent of the total industrial and agricultural output value or 2.8 per cent of the state expenditures in the same year. In developed countries, the funds for scientific research generally account for 3-5 per cent of their total industrial and agricultural output value. The acute shortage of funding for scientific research in China has drawn the attention of all parties concerned. The leadership of the departments concerned is studying how to solve the problem. According to a preliminary plan drawn up by the state authorities in charge of science and technology, the funding for scientific research in civilian projects should be increased gradually in the coming few years and raised to 0.7-1 per cent of the total industrial and agricultural output value in a period of five to ten years.

State appropriations should not become the only source of funding for scientific research. More sources of funding should be found. Appropriations from state and local sources constitute the principal part of the funding, to be divided mainly among the research units engaged in long-term, multi-pur-

pose and basic researches as operating expenses and capital construction investments. The state authorities in charge of science and technology are studying how to turn the funds for new product development and pilot plant production and subsidies for major research items into funds for scientific and technological development under the unified control of a responsible department authorized by the state, to be used by contract as subsidies for major projects.

In recent years, more sources have been found to finance scientific research. Apart from state appropriations, some central state agencies and local governments at various levels are using part of their funds for equipment renewal and technical transformation and other operating expenses for scientific and technological research. A predetermined percentage of the income from technical transfers and services and from profits retained is also being used for scientific research. Enterprises which assume responsibility for their own profits and losses set aside funds for scientific research as part of their production costs. Some units can raise funds for research projects through low-interest or interest-free loans from banks.

8. FORMULATE AND PERFECT TECHNICAL AND ECONOMIC POLICIES FOR ALL FIELDS OF LEARNING

Formulation of correct technical and economic policies is of great importance to scientific and technological development and economic construction. If a technique is not selected properly and a policy is wrong, it will cause great losses to the economy. In order to avoid errors resulting from decisions by a few people on major technical questions, many economic departments are establishing a democratic system of making technical and economic assessment. Feasibility studies will be conducted on all new major projects, such as those on capital construction, technical transformation, and introduction of advanced technologies from abroad. Departments

in charge and specialists will provide scientific demonstrations as well as technical and economic assessment. Projects without going through this procedure will not be approved by the state.

In view of the needs of the national economic development, work is now being done to study and formulate technical policies concerning agriculture, energy, construction, urban development and communications and transport. Moreover, a study is being made of technical policies regarding machinery and mechanical equipment, materials and new technologies (such as the use of computers, laser and integrated circuits). In formulating any major policy on technology, the departments concerned take into full consideration international trends, domestic conditions, immediate gains and losses and long-term advantages and disadvantages.

9. IMPROVE AND STRENGTHEN PARTY LEADERSHIP OVER RESEARCH INSTITUTES IN SCIENCE

Today, most research establishments in science adopt the system of the president or director assuming responsibility under the leadership of the Party committee. In some units, the Party committees take on everything normally done by the administration. This has not only hindered the administration in assuming the leadership role but also weakened the Party's role in implementing its policies and principles and doing its ideological and political work. In the future, attention should be paid to the proper division of functions and powers between the Party and the administration in a research unit. The day-to-day administrative work and research work should be left to the administration and the research staff. The main task for the Party committee is to implement the Party's policies and principles and do its ideological and political work. In exercising leadership over the research work, the Party committee should center its attention on the basic

construction work for research and the principles whereby research projects are selected.

V. OBJECTIVES FOR SCIENTIFIC AND TECHNOLOGICAL DEVELOPMENT AND KEY ITEMS

China is presently adjusting her plan for the development of science and technology in conformity with the principle that science and technology should serve economic construction. She is redefining the immediate and long-range objectives for scientific and technological development and priority items. The basic objectives in the immediate future should be to further strengthen the technical basic of industrial and agricultural production in close coordination with the technical transformation of the national economy; to raise by a large margin the technical and economic indices concerning the consumption of raw and other materials and energy, product quality and production efficiency; to develop new products, new equipment, new materials, new technologies and techniques; and to make greater contributions to the improvement of the material and cultural life of the people and their health as well as the betterment of their natural and social environment. At the same time, basic research should be strengthened to pave the way for the emergence of new industries, besides providing a scientific and technological reserve for the long-range development of the national economy.

With these objectives in mind, research departments in China have put forward a number of key items for research and development concerning the technical transformation of industry and agriculture, the improvement of life and health of the people, the development of new technologies and the strengthening of basic research. Work on these items is under way.

1. TECHNICAL TRANSFORMATION OF INDUSTRY AND AGRICULTURE

(1) Agriculture. There are many topics for research in agriculture. The first thing to do is to strengthen the comprehensive survey and regionalization of the country's agricultural natural resources, and find out the types, distribution, quantity and quality of China's land, water, climate and biological resources, the interrelations between different resources and the pattern of equilibrium of the ecosystem. At present, emphasis should be placed on the investigation of the Sanjiang Plain, Hainan Island, the Huang-Huai-Hai Plain, the loess plateau and the red and yellow earth regions in the south, and work out overall plans to utilize and harness them in a comprehensive way. The setup and distribution of agricultural production should be readjusted on the basis of investigation and study, besides protecting and improving the ecological environment.

Secondly, it is necessary to strengthen the exploration and collection of the country's varied and abundant animal and plant species and resources and establish species banks. Extensive research must be conducted on the selection and breeding of new species and strains through crossbreeding, radiation induction and other methods in order to breed a growing number of high-yield, top-quality and multiple-resistant species and strains for farming, forestry, animal husbandry and fishery. Analysis of domestic and foreign data shows that goods seed strains normally account for 30-35 per cent of the increase in farm output.

Thirdly, it is necessary to strengthen research on farm-oriented industries, provide highly efficient, low-risk and low-cost chemicals to kill pests, weeds and bacteria, and greatly enhance the research on phosphate and potash fertilizers and highly efficient compost.

(2) Energy. First, a good job must be done on the improvement of technology that centres on the saving of energy.

The advanced techniques that have proved successful at home and abroad must be popularized in revamping the existing enterprises in the energy-guzzling area. Industrial boilers, medium-sized and small electric motors, motor vehicles and other general-purpose items must be improved if they are inefficient, consume too much energy, are in wide use and are manufactured in large quantities. A number of new mechanical equipment that can utilize energy in a comprehensive way must be produced on a trial basis, such as the 100,000-200,000 kw generator sets and gas-burning turbogenerators. At the same time, the development and utilization of conventional energy sources must be stepped up, such as the geophysical prospecting for oil and rapid-speed drilling technology, the mechanized cutting, liquefaction and gasification of coal, and the trial manufacture of large generators sets of 600,000 kw or more. Redoubled efforts must also be made to strengthen the research, development and utilization of nuclear, solar, biological, wind, geothermal, tidal and other energy sources.

(3) Resources. So far, 40 per cent of China's land has not been systematically surveyed for the purpose of locating mineral and hydrogeological resources, nor have three-fourths of her sea area been touched by any survey aimed at the finding of oceanic minerals. It is not clear what kind of new resources can be found in many parts of the country and this ignorance affects adversely China's efforts to plan her economic construction and the geographical distribution of her productive forces. China has rich tungsten, molybdenum, antimony and other non-ferrous metal deposits, but her iron, phosphor, manganese and cobalt ores are mostly of low grade. Surveys for the resources of rare and trace elements and non-ferrous metallic ores are insufficient. Now, the departments concerned are stepping up research on mineralization and on new methods of exploration. In addition, China's water resources are inadequate, while there is a serious waste and pollution of water. Many cities and industrial areas have difficulty in obtaining water during summer time. Measures

are now taken to step up the survey of water resources and research on their comprehensive assessment and utilization.

(4) Materials. The present focus is centred on the multiple-purpose use and development of rich resources in the country. The departments concerned are conducting vigorous research in the area of iron and steel and non-ferrous metals and are trying to increase the variety of their products and the proportion of alloy steels. They have launched a research programme on synthetic materials, popularized the application of plastics in construction, and increased the proportion of synthetic fibres among materials for making clothes. They have started research on all types of polymeric materials, anti-aging agents and catalysts. They have supported research on the new technologies for manufacturing highly-tensile and light building materials and glass. They have stepped up the trial manufacture of new materials as needed by the state.

(5) Mechanical equipment. The most noticeable problems in China's machine-building industry are its low technical level, incomplete equipment, insufficient variety, poor quality, a weak scientific research force and outdated testing methods. But measures are being taken to develop new products, upgrade old ones, raise the technical level of equipment production and improve the quality of spare parts and accessories, thus providing the national economy with top-quality, highly efficient, low-consumption and low-cost technical equipment. The technical standards of the machine-building industry must be raised from the present level dating back to the 1950s to the international level of the 1970s. Mechanical equipment in China must be raised to a new level by combining machinery with electronics, and making use of computerized control and photo-electric technology.

(6) Communications and transport. The proportional relations are being readjusted between communications and transport on the one hand and the other branches of the national economy on the other. Work has started on formulating sound policies so that all means of transport — railways, high-

ways, water and marine navigation and airlines — will have a well-coordinated development. The other schemes under way include energetically developing electrical traction and manufacturing new passenger coaches and freight cars, making full use of water transport facilities and developing transportation by pipelines. For instance, 60 per cent of China's coal output has to be moved over a long distance. To move coal by pipelines will save investment, shorten construction time, lower costs and reduce the use of farmland.

(7) Electronic technology and communication. It is necessary to strengthen the research on basic electronic products, raise their reliability and stability, extend their life and lower their cost by a large margin; to develop photo-electronic technology, study further the theories on information and electric-wave transmission, conduct research on the technology of long-distance, large-capacity optic fibre communication and produce on an experimental basis complete equipment for that matter; to develop cable, short-wave and satellite communication technologies and produce on an experimental basis automatic exchange equipment for programme-controlled digital telephones and high-speed facsimile equipment.

2. IMPROVEMENT OF PEOPLE'S LIFE AND HEALTH

Improvement of people's life and health mainly involves the development of the textile, food and other light industries and the betterment of medical and health-care services.

In the past, scientific research was neglected in the textile and other light industries. As a result, these industries grew slowly; equipped with outdated technical equipment, they produced poor quality goods. At present, great efforts are being made to strengthen the scientific research in this field, emphasizing the increase of supply of raw materials, the redesigning of old products, and the improvement of products. The textile industry is stepping up its research on the finishing

process in printing and dyeing and on the development of special-shaped and composite fibres. The food industry is striving to improve the food composition, paying more attention to nutrition while cutting down pollution. It is also necessary to study the new technology of making fructose from starch.

In medicine and health care, it is necessary to continue research work in traditional Chinese medical science and pharmacology and on malignant tumours, cardio-vascular diseases, infectious diseases and endemics; to step up the research and manufacture of new medicines and new medical apparatus; and to produce highly efficient and inexpensive contraceptive devices that are safe and easy to use.

The environment in the country is seriously polluted. The monitoring of 78 rivers in 14 provinces shows that 54 of them are contaminated. And so is the ground water in 41 of the 44 important cities. There is a widespread feeling of concern. The government departments concerned are increasing their research to prevent or control industrial pollution. In environmental protection, prevention will be stressed.

3. DEVELOPMENT OF NEW TECHNOLOGIES

(1) Electronic computer technology. China began developing electronic computer technology in 1956, and now a foundation has been laid. Emphasis in the future shall be laid on developing microcomputers and medium-sized and small computers, deciding on the country's computer model series and serial-producing certain computers. At the same time, great efforts will be made to strengthen the research and manufacture of peripheral equipment and make a breakthrough in the manufacture of magnetic disc storage, information processing in Chinese and other key technologies, to conduct research on software and promote the popularization of computers; and to solve the problems involving the manufac-

ture of basic elements, improve the quality of integrated circuits and lower the costs.

(2) Atomic energy technology. Nuclear energy, isotope, neutron technology and radiation technology are all important aspects of the peaceful use of atomic energy. In the past, China was successful in the use of isotopes and radiation to diagnose and treat baffling diseases. Efforts should continue in this field. There is a great potential in the creation of new, fine seed strains through radiation-induced mutation. More than 100 fine strains have already been created in this way. Marked economic results have been reported in using nuclear radiation to check the accuracy of scientific instruments and in radiative processing. Further efforts should be made to step up research and application in all these fields.

(3) Laser technology. Laser is a brand-new science and technology that has developed rapidly since the 1960s. Its emergence has led to revolutionary changes in optical technology. China was not late in starting laser research, but the progress has been slow. At present, it is of first importance to improve the quality of the routine laser devices and strive to meet the laser needs in industry, communications, medicine, scientific research and national defence in the near future. At the same time, new laser devices must be made on an experimental basis.

(4) Remote sensing technology. Great efforts must be made to produce remote-sensing instruments according to fixed models, establish China's own satellite message receiving system and to take photos by satellites in the near future so as to ascertain preliminarily the size and distribution of China's land resources. Aerial and satellite photos should be used to compile the geological maps of Tibet, Sichuan, Yunnan, Qinghai, Xinjiang and other provinces and regions where the topography is most complex. Work should start on the exploration of China's forestry, fishery and mineral resources.

(5) Superconducting technology. Superconducting technology is a new item of interest around the world. China

abounds in the deposits of niobium, titanium and other superconductive materials. In the next few years, it is necessary to step up the research of superconducting dressing equipment, superconducting treatment of liquid waster, superconducting electric motors and superconducting quantum apparatus.

4. BASIC RESEARCH

In the next few years, positive results must be gained in such key research areas as high-energy physics, solid physics, molecular biology, cell biology, genetic engineering, synthetic chemistry, structural chemistry, earth crust and upper mantle, mechanism of mineralization and causes of earthquakes. At the same time, progress must be made in applied mathematics, engineering mechanics, engineering thermophysics, acoustics, neurophysiology, systems engineering, etching science, astrophysics, astro-geodynamics, atmospheric circulation and comprehensive marine exploration.

VI. INTERNATIONAL CO-OPERATION IN SCIENCE AND TECHNOLOGY

Science and technology is a shared asset for all of mankind. It should serve the social and economic progress of all countries and work for all the people on earth. Modern science and technology has become more and more specialized, and the area where there must be coordination among different fields of learning has become wider and wider. International co-operation, too, is becoming more pressing and necessary. As every country has its own strong points and weaknesses, it has to co-operate with other countries, learning from their strong points to offset its weaknesses. Only in this way can there be scientific and technological progress and economic and social development in various countries.

China has always attached importance to strengthening scientific and technological co-operation with other countries. This kind of co-operation is an important way to promote friendship and mutual assistance among different peoples for common progress. It is also an important means for the establishment of a new international economic order. China stands for the lift of unreasonable restrictions on scientific and technological exchanges. She is opposed to the practice of using economic and scientific and technological superiority to bully weaker or smaller countries or to undermine their interests. China stands for lasting and fruitful international co-operation on the basis of complete equality and mutual benefit.

To carry on her socialist modernization, China needs co-operation on a wide scale with other governments and peoples in the scientific and technological and other fields. She needs to learn from other countries' advanced experience and strong points. She is willing to follow all forms of scientific and technological co-operation commonly practised among nations, such as (a) signing bilateral or multilateral agreements for scientific and technological co-operation; (b) sponsoring bilateral or multilateral academic seminars; (c) mutual invitation to scientists and technologists for lectures; (d) exchanging scientists and engineering experts for doing research work; (e) organizing bilateral or multilateral scientific exploration and jointly undertaking one or several research projects; (f) establishing joint scientific research centres or institutes; (g) establishing contacts among research institutes and universities that have the same or similar interests and exchanging scientists as visiting professors; (h) exchanging students, post-graduates and those doing advanced studies; (i) exchanging scientific and technological information; and (j) providing technical assistance and technological transfer for each other.

For many years, China has carried out multiform scientific and technological co-operation with countries in the Third World and provided economic and technical aid to more than

60 countries to the best of her ability. Her technical aid covers the fields of agriculture, forestry, water conservancy, power, food, textile, and other light industries, machine-building, metallurgy and chemical industries, plus construction and transport.

China has signed governmental agreements for scientific and technological co-operation or industrial, economic, scientific and technological agreements with Korea, Argentina, Pakistan, Bangladesh, Thailand, the Philippines, Libya, Zambia, Mexico, Chile, Romania, Yugoslavia, Hungary, Poland, Czechoslovakia, Bulgaria and the German Democratic Republic. After 1978, China signed similar agreements with France, Britain, the Federal Republic of Germany, Italy, Sweden, the United States, Greece, Denmark, Finland, Belgium, Luxembourg, Australia and Japan. Under these agreements that cover basic research, industrial and agricultural production and new technologies, more than 200 co-operation projects have been undertaken.

During the same period, there has been also progress in non-governmental scientific and technological co-operation and exchange between China and other countries. In 1979 alone, there was an exchange of tens of thousands of visitors. Contacts between research institutes, academic bodies and scientists were strengthened. For instance, the Chinese Academy of Sciences has established direct contacts with the Max Planck Society and the Alexander Von Humboldt Foundation of West Germany for an annual exchange of scholars. China follows multiple forms of scientific and technological co-operation with other countries, such as inviting foreign specialists to lecture in China, launching joint research projects by Chinese and foreign scholars, participating in international academic organizations, sponsoring and attending international academic meetings, running international training courses, and sponsoring activities that combine technology with trade.

An important aspect of international co-operation is the strengthened co-operation between China and the U.N. scien-

tific and technological system. In recent years, China has had contacts with UNESCO, UNIDO, UNCTD, FAO, WHO and ILO. Since 1979, it has actively supported and participated in the United Nations Conference for the Promotion and Development of Science and Technology and the Science and Technology Development Centre. Co-operating with the U.N. in scientific and technological exchange, China has provided not only funding but also scientific and technological know-how for assisting countries in the Third World. At the same time, China has obtained assistance from U.N. organizations, including aid to some large research projects in science.

Chapter XII
**ECONOMIC RELATIONS WITH
FOREIGN COUNTRIES**

by Wang Linsheng and
Chen Yujie

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ON the basis of self-reliance and equality and mutual benefit, China's trade and economic relations with foreign countries have made progress since 1949. The increased relations have played an important role not only in promoting the establishment of diplomatic relations but also in advancing socialist construction. In 1977, China entered a new period of embarking on socialist modernization. The Third Plenary Session of the 11th Central Committee of the Chinese Communist Party, held in December 1978, decided to shift the focus of the Party's work to economic construction and formulated an economic policy of opening to the outside world. This ushered in a new development in China's trade and economic relations with foreign countries. Here we shall present a brief review of the development of China's trade and economic relations with other countries before 1976, and then proceed to the new situation and new policies and measures adopted in recent years. Then we shall discuss the reform of the foreign trade system and the relationship between economic readjustment and the expansion of foreign trade.

I. A REVIEW OF CHINA'S TRADE AND ECONOMIC RELATIONS WITH FOREIGN COUNTRIES BEFORE 1976

The founding of the People's Republic in 1949 was followed by the return of China's Customs to the Chinese Government after a long period of foreign control, the abolition of special privileges enjoyed by foreign capital in banking, shipping, insurance, commodity inspection, notarization and arbitration. The New China also took over the import and export companies owned by bureaucrat-capitalists, estab-

lished state-owned foreign trade agencies and exercised control over foreign trade throughout the country. From then on, China's independent foreign trade began to grow.

In December 1950, the Central People's Government promulgated the Temporary Regulations for the Control of Foreign Trade that, based upon the principle of equality, mutual benefit and the need to exchange goods with foreign countries to promote the rehabilitation and development of the national economy, imposed control on the import and export commodities, business enterprises and trade partners throughout the country. Private foreign trade companies were controlled through the import and export license system, and foreign businessmen were allowed to carry on their business in China as long as they observed the decrees and regulations of the Chinese Government. At that time, the capitalist sector still played a considerable role in foreign trade. In 1950, there were 4,600 private import and export enterprises in China, employing about 35,000 people. Their capital totalled 130 million yuan and their turnover made up 33.12 per cent of China's total volume of foreign trade. These private firms were concentrated in Shanghai, Tianjin, Guangzhou, Qingdao and Wuhan. The firms in these cities constituted 81 per cent, their employees 78 per cent, and their capital 88 per cent, of the nation's total. As the socialist sector of the economy grew the proportion of the volume of state-run foreign trade in the country's total climbed up steadily, being 93 per cent in 1952 and 99.2 per cent in 1955. Private import and export firms underwent socialist transformation in 1956, and their assets came under the control of state-owned companies after they had been paid a fixed amount of interest on their capital. Thus, socialist foreign trade prevailed on the Chinese mainland with the exception of Tibet where private and foreign enterprises were still allowed to engage in import and export business.

The number of countries and regions having trade relations with China grew from 40-odd in the early period of the People's Republic to more than 160 in 1976. Over 80 coun-

tries signed trade or provisional trade agreements with China. China also signed a trade agreement with the European Economic Community.

At the same time, China's foreign trade registered fast growth on account of increased industrial and agricultural production. Between 1950 and 1976, the export volume increased 12.4 times from 552 million to 6.855 billion U.S. dollars, the import volume grew 11.3 times from 580 million to 6.58 billion U.S. dollars, and the total volume of foreign trade rose 11.9 times from 1.132 billion to 13.435 billion U.S. dollars (inflation not considered). Compared with the situation in other countries, China's export commodities occupied only a small proportion in the total output value of industry and agriculture, about 4-6 per cent in each of the years after 1949. Even today, China's export makes up only about 1 per cent of the world's total trade volume.

A notable change took place in the composition of China's export commodities, with the staples switching from farm and subsidiary products to industrial and mineral products. Owing to its extremely backward economy, old China exported chiefly farm and subsidiary products. This situation could not be reversed shortly after Liberation. So, when the economic rehabilitation period ended in 1953, farm and subsidiary products still made up 55.7 per cent of China's exports, and industrial and mineral products and processed farm and subsidiary products 44.3 per cent. The export commodity make-up changed with the fulfillment of the First Five-Year Plan. Industrial and mineral products and processed farm and subsidiary products constituted 59.9 per cent of the exports in 1957, while farm and subsidiary products accounted for 40.1 per cent. In the mid-1960s, the percentage of farm and subsidiary products continued to decline despite the increase in their value. They constituted only 33.1 per cent of the total exports in 1965, while industrial and mineral products and processed farm and subsidiary products rose to 66.9 per cent.

The proportion of industrial and mineral products went up further in 1973 when China began exporting petroleum. As petroleum made up about 10 per cent of China's total exports in 1975 and the following year, industrial and mineral products in 1976 rose to 71.6 per cent of the country's exports, and farm and subsidiary products dropped to 28.4 per cent.

Nevertheless, machinery, equipment and chemical products still constituted a meagre percentage of the exported industrial and mineral products. The major manufactured goods for export were textiles and other light industrial products, such as cotton cloth, cotton piece goods, cotton knitwear, garments, silk fabrics, enamelware and leather goods. They made up 45 per cent of the exports. Apart from petroleum, export minerals were chiefly non-ferrous metals and fuels, including coal, tungsten ore and tin.

China's imports after 1949 were mainly capital goods. The complete plants, equipment and technologies imported between 1952 and 1976 in the areas of metallurgy, machine building, motor vehicle, coal, petroleum, power, telecommunications, chemical industry, mining, electronics and precision machinery played an important role in building up China's industrial base and raising her production capacity. Besides, China imported large quantities of capital goods needed for the development of industry, agriculture, transport and communications, such as lorries, ships, rolled steel, tractors, iron ore, aluminium, copper, rubber, paper pulp, chemical fertilizer, insecticides and raw materials for the textile and other light industries.

The import of consumer goods also increased in value and variety to support the domestic market and to meet the growing material and cultural needs of the people. During 30 years, China imported 14.82 million tons of sugar and 122.51 million tons of grain. The net grain import was 52.5 million tons after the 70.01 million tons of grain exported during the same period were deducted. Of the total imports between 1950 and 1976, capital goods made up 80.8 per cent and con-

sumer goods 19.2 per cent. Import changes in the relative position between capital and consumer goods in these years are shown as follows:

From 1950 to 1959, capital goods constituted 91.5 per cent of the imports and consumer goods 8.5 per cent.

From 1960 to 1969, capital goods made up 71.6 per cent of the imports and consumer goods 28.4 per cent.

From 1970 to 1976, capital goods constituted 81 per cent of the imports and consumer goods 19 per cent.

The above shows that a salient feature of China's imports is the predominant percentage of capital goods. This is prompted by the need to promote China's socialist economic construction. This feature will continue in the future.

Economic and political developments and changes, both domestic and international, have an impact on China's trade and economic relations with foreign countries. Foreign trade, as an important aspect of economic relations with foreign countries, was adversely affected by two economic upheavals in the country. The first occurred in the late 1950s and early 1960s. Owing to the "Left" mistakes, coupled with natural disasters and Soviet perfidy in tearing up contracts, production stagnated and fell. As a result, between 1960 and 1962, both exports and imports stagnated and declined. The other upheaval took place in the ten-year "cultural revolution", during which China's economy suffered untold losses. Exports stagnated and dropped in 1967-70 and in 1976; imports declined in 1967-70 and again in 1974-76. A number of imported projects were not completed over a long time or failed to reach the designed level of production though they were completed and commissioned. In either case, China's economic construction was gravely undermined.

Changes in the political and economic situation in the world also affected China's imports and exports. As the United States and some other countries started their embargo on China in October 1950, China was compelled to trade chiefly with the Soviet Union and some East European countries.

China's trade with the United States came to a halt. After the 1954 Geneva Conference, China's trade with some Western countries resumed and grew, thanks to the concerted efforts on both sides. Of China's total volume of exports in 1955, those that went to the Soviet Union and East European countries made up 76.2 per cent, while the Western countries and others had only a 23.8 per cent share. By 1957, China's exports to the Soviet Union and East European countries had declined to 65.6 per cent of her total export volume, while those to other countries and regions grew to 34.4 per cent. Of China's total volume of imports in the 1950s, those from the Soviet Union and East European countries made up 78 per cent, and the remainder, or 22 per cent, was shared by other countries and regions. In 1960, the Soviet Government unilaterally decided to withdraw, all in the month of July, the 1,390 specialists then working in China, thus tearing to pieces 343 specialist contracts and supplements and cancelling 257 scientific and technical co-operation projects. Enormous damage was thus done to China's economic construction. Her trade with the Soviet Union was seriously affected. As the Sino-Soviet trade sharply declined, China, beginning in the early 1960s, turned to the West and the developing countries and regions for the bulk of her foreign trade.

The import of new technologies is an important item in the economic relations with foreign countries. World history since the end of the 18th century shows that a country's modernization cannot proceed without its absorbing advanced technologies of other countries (including scientific management in keeping with the development of socialized mass production). A salient feature of modern production is the application of steady advances in science and technology. The development of modern production itself determines that any country not wishing to lag behind must constantly import advanced science and technology, and this is also true of countries with a very high production capacity. The advance in world history, the requirements inherent in the development of socialized mass

production and the underdeveloped industry and agriculture and the backwardness of science and technologies in China — all this points to the special importance of importing new technologies for the modernization of China's economy.

Given self-reliance as a prerequisite, New China has always attached importance to the import of new technology. For a long period of time, emphasis was placed on the import of complete plants. Some 706 items of new technology and complete plants were imported from 1952 to 1977.

The imported technology and complete plants in the 1950s came mainly from the Soviet Union and East European countries. Under governmental agreements, more than 400 items were imported from these countries, mostly during the First Five-Year Plan period (1953-57), including the 156 key projects in the fields of metallurgy, motor vehicle, machine building, coal, petroleum, power, telecommunications, chemical and national defence industry. Such large-scale import of machinery, plants and technology was useful to the laying of a good foundation for China's industry and to the establishment of a comprehensive industrial system.

Early in the 1960s, the Soviet Government's unilateral decision to withdraw all its specialists then working in China and to cancel all its contracts with China made it impossible to complete the 125 construction projects that had been agreed upon between China and the Soviet Union in the first two years of the Second Five-Year Plan period. The major sources of technology China imported became Japan and Western Europe. Two vinylon plants were imported from Japan in 1962, followed by the import from Japan and nine West European countries of 84 items of plants and technologies in the fields of petroleum, chemical engineering, metallurgy, mining, electronics, precision machinery. The imports in the 1960s were mainly complete plants designed to raise production capacity. Meanwhile, China also began to buy patents. In the late 1960s, the import of technology was interrupted owing to the "cultural revolution".

Beginning in 1972, China resumed the import of new technology. But emphasis in the 1970s was still laid on complete plants. Between 1972 and 1977, China imported from Japan, West Germany, Britain, France, Holland, the United States and 13 other countries huge chemical fertilizer equipment, huge chemical fibre equipment, petrochemical installations, 1.7-metre rolling mill, power generating sets, coal-cutting machinery, oxygen-making equipment, bearing-making equipment, data-processing equipment, refining equipment, etc. At the same time, a number of manufacturing patents and key equipment were imported, such as the Spey engine, turbo-compressor and industrial steam turbine.

It is both necessary and effective for China to stress the import of complete plants for a certain period, since economic construction began in New China at a time when her industry and agriculture were underdeveloped and her scientific and technical attainment remained at a low level. In the early period of the People's Republic, there was a great deal to be done and technologically China had to start from the very beginning. China could not but copy in most cases. However, with the initial success in establishing a fairly comprehensive industrial system and a national economic system, China, of course, must consider changing the ways of importing new technologies. The 400,000 enterprises in operation at present are the base from which China can make new advances in her modernization drive. The introduction of technical renovations or transformation of the existing enterprises in order to tap their potential will be the primary consideration when China imports new technology. Stress will be put on the import of key equipment and allied technologies instead of complete plants for new industrial and transport enterprises as in the past.

To speed up economic construction, China must not only expand greatly her foreign trade, strive to adopt advanced technologies and equipment and utilize foreign experience, but also make active and prudent use of foreign funds.

The huge sum of capital required for China's economic construction comes chiefly from internal accumulation. China has all along followed the principle of independence, initiative and self-reliance in her socialist economic construction. At the same time, she also attaches great importance to developing economic co-operation with other countries on the basis of equality and mutual benefit, and to foreign aid. However, after the founding of the People's Republic in 1949, the embargo by a number of countries imposed isolation on China and deprived her of the necessary conditions for developing economic co-operation with other countries. In the early 1950s, China enlisted some aid only from the Soviet Union. In February 1950, the two countries signed an agreement that provided a Soviet loan to China of 300 million U.S. dollars to pay for the machinery, equipment and other materials the Soviet Government agreed to deliver to China. The other Soviet loans China subsequently obtained were used mainly in the same way. The Soviet loans by which the Soviet Union provided China with equipment and materials (a greater part was military hardware used in the war to resist U.S. aggression and aid Korea), were repaid in full, plus interest, by China with materials, gold and cash. Towards the end of the 1950s, Soviet aid to China was stopped. From the mid-1960s when China paid off Soviet loans ahead of time to the late 1970s, China not only did not borrow one penny from foreign governments but also provided some loans to other countries.

China resorted to deferred payment in 1962 when she signed a contract with Japan on the import of complete vinylon plants, using short-term seller's credit. From then on and until 1976, China mainly used seller's credit for export in the utilization of foreign funds.

In addition, the Bank of China also took in deposits abroad, as well as in Hongkong.

For domestic reasons, China did not take the initiative to develop her economic co-operation with other countries in the

late 1960s, even though the international conditions had become favourable.

Not until 1977 did China change the situation of seclusion by pursuing an economic policy of opening to the outside world and actively developing economic co-operation with other countries on the basis of self-reliance, equality and mutual benefit.

II. NEW PROGRESS IN TRADE AND ECONOMIC RELATIONS WITH FOREIGN COUNTRIES AFTER 1977

After 1977, China's economic relations with foreign countries entered a new period of development, thanks to the rehabilitation of her national economy, the growth of industrial and agricultural production, a rapid expansion of foreign trade and, especially, the pursuance of an economic policy of opening to the outside world.

The record volume in China's foreign trade before the downfall of the "gang of four" was set in 1975, reaching 14.75 billion U.S. dollars. The 1976 figure fell by 9 per cent to 13.43 billion. It rose to 14.8 billion in 1977. The volume in 1978 rose to 20.64 billion, up 39.5 per cent; it soared to 29.39 billion in 1979, up 42.4 per cent. In short, total volume doubled in the years 1977-79, averaging a 29.8 per cent increase a year. The actual annual rise was 17 per cent if price increases were taken into consideration. In 1980, total trade volume reached 37.82 billion U.S. dollars, of which exports amounted to 18.27 billion and imports 19.55 billion. The total volume was 28.7 per cent above the 1979's, or 14 per cent if price increases were taken into account.

A trade deficit appeared in 1978; it approached 2.1 billion U.S. dollars in 1979 and declined to 1.3 billion in 1980. The deficit was covered chiefly by remittances from Chinese nationals residing abroad and by earnings from the tourism industry, and also by some foreign credits.

As for commodity composition, capital goods occupied an overwhelmingly dominant position in the imports. The import of technology and equipment registered the fastest growth. For a few years, capital goods made up 80 per cent of the imports, and consumer goods less than 20 per cent. However, after the Central Committee of the Party had adopted the policy of readjusting the national economy, the development of agriculture and light industry was stressed in order to meet more needs of the people. The new policy caused a change in the make-up of the imports, as grain, cotton, sugar and edible oil were imported in ever larger quantities. In 1979, the imported consumer goods, materials for farm use, and raw materials for the textile and other light industries rose by 30 per cent, 20.7 per cent and 15.6 per cent, respectively, over 1978, while the import of rolled steel, pig iron and iron ore was reduced. The make-up of exports also underwent a change. The proportion of manufactured goods and minerals kept on rising while that of farm and subsidiary products declined. Farm and subsidiary products accounted for only 23.1 per cent of the exports in 1979, as against the 27.6 per cent one year earlier. This change reflects the fact that the rapid development of China's processing, mining and refining industries brought about some improvements in the make-up of the export commodities when compared with that in the 1950s and 1960s. It must be noted, however, that minerals come under the category of primary products and that petroleum constitutes a large share. According to United Nations S.I.T.C., primary products made up more than half of China's exports in 1980. They came to 54.1 per cent while manufactured goods made up only 45.9 per cent. The latter were chiefly textiles and other light industrial goods. In 1980, they constituted 34.1 per cent of China's total exports while heavy industrial and chemical products came to a mere 11.8 per cent. Presently, China is still an exporter of primary products.

In 1976, China traded with 160 countries and regions. And the number grew to 174 in 1980, of which 88 are committed

by agreements or protocols. The increase reflects a rapid development of China's economic exchanges and co-operation with foreign countries.

China's trade with Korea, Romania and Yugoslavia has grown steadily in the spirit of stressing practical value and mutual assistance. Since the Chinese Communist Party and the League of Communists of Yugoslavia resumed relations, the trade between the two countries has increased, with the balance of payment in favour of Yugoslavia for several consecutive years.

Trade between China and Japan occupies an important position in the economic life of both countries because of historical and geographical factors and cultural background. Thanks to the solicitude of the late Premier Zhou Enlai and the efforts of many friendly Japanese, the Liao Chengzhi-Tatsunosuke Takasaki Memorandum was signed in 1962, laying the foundation for the non-governmental trade between China and Japan. The establishment of diplomatic relations between the two countries in 1972, the signing of the China-Japan Long-Term Trade Agreement in February 1978 and the conclusion of the China-Japan Treaty of Peace and Friendship in August of the same year stimulated the growth of bilateral trade. For a long period, Japan has been the leading trading partner of China, accounting for 23.4 per cent of China's total volume of foreign trade in 1977 and maintaining about the same percentage in subsequent years. In 1972, trade between China and Japan was worth a mere 1.04 billion U.S. dollars, and it grew to 4.82 billion in 1978, 6.71 billion in 1979, or 39.2 per cent higher than the year-earlier figure, and 8.97 billion in 1980, or 33.7 per cent over 1979.

Western and Northern Europe is China's second largest trading partner. An important factor is the EEC which established official relations with China in 1975 when China appointed an ambassador to the EEC in Brussels. China and the European Economic Community signed a long-term trade agreement in April 1978 and initiated a five-year textiles ac-

cord in July 1979. Beginning in 1980, the EEC granted general preferential treatment to China. All these developments created favourable conditions for the expansion of bilateral trade. The trade was worth 5.06 billion U.S. dollars in 1979, an increase of 54.3 per cent over the year-earlier figure.

The signing of the Shanghai Communiqué in 1972 marked the resumption of China-U.S. trade after a disruption of more than 20 years. Trade between the two countries that year was less than 100 million U.S. dollars, accounting for only 0.2 per cent of China's total volume of foreign trade. It jumped to 260 million in 1973 and 480 million in 1974. It fell in 1975-77. But the establishment of diplomatic relations between the two countries on January 1, 1979, Comrade Deng Xiaoping's visit to the United States, the formation of the Sino-U.S. Joint Economic Committee in March 1979 and the initiation of a Sino-U.S. trade agreement in May of the same year provided another stimulus for the bilateral trade. Trade volume for 1979 reached 2.45 billion U.S. dollars, 150 per cent more than the 1978 figure of 990 million. It constituted 8.3 per cent of China's total volume of imports and exports. When the Sino-U.S. trade agreement came into force on February 1, 1980, the two sides gave each other most-favoured nation treatment, opening new vistas for the future. It must be noted, however, that China had an unfavourable balance of trade with the United States, and her export of some commodities such as textiles and garments has been restricted by U.S. import quotas. Although the U.S. ban on the export of certain advanced technologies and equipment has become somewhat flexible, no substantial change has been made in this restrictive policy of a discriminative nature. All this cannot but have an adverse effect on the growth of China-U.S. trade.

China's trade with Canada and Australia has been increasing on the whole.

In 1980, China had trade relations with more than 140 countries and regions in Asia, Africa and Latin America. Trade volume has been growing steadily in recent years. It reached

6.66 billion U.S. dollars in 1979, 32.1 per cent more than that in 1978. But its proportion in China's total volume of foreign trade declined from 27.2 per cent in 1977 to 22.9 per cent in 1979. The reason for the low volume was that both parties are developing countries with a low production level, are in the process of developing their national industries and have a similar structure in their export. This cannot but restrict to a certain extent the growth of their trade. The future, nevertheless, is promising.

China's trade with the Soviet Union and the COMECON countries in Eastern Europe (not including Romania) between 1977 and 1980 remained roughly at the level of 500 million U.S. dollars a year.

Hongkong and Macao are of special significance to trade in China's mainland. Hongkong is China's largest source of foreign currencies and the largest port of transit for Chinese export commodities. The Hongkong and Macao markets become all the more important to China's exports because deficits frequently appeared in her trade with Japan, the EEC, the United States and other developed capitalist countries. After 1968, owing to the "cultural revolution", Chinese commodities on the Hongkong and Macao markets occupied only a second place. The years after 1977 saw rapid recovery and growth of trade between China's mainland and Hongkong. At present, China obtains one-third of her foreign exchange earnings through exports by way of Hongkong, and about half of the Chinese commodities from China's mainland to Hongkong are in transit to other countries and regions.

All this shows that China's largest trading partners are countries of the second world. In 1980, for instance, they accounted for about half of China's total volume of foreign trade with Japan taking the lead. Next came the third world countries, accounting for 22.1 per cent. The first world countries (mainly the United States) took up 14.2 per cent; Hongkong and Macao 13.8 per cent.

Geographical Distribution of China's Foreign Trade Volume in 1980

| Trading partners | Total trade | | Exports | | Imports | |
|------------------|--|--------------------------------------|--|--------------------------------------|--|--------------------------------------|
| | volume (billion U.S. dollars) | proportion in total volume (%) | volume (billion U.S. dollars) | proportion in total volume (%) | volume (billion U.S. dollars) | proportion in total volume (%) |
| First World | 5.28 | 14.2 | 1.19 | 6.6 | 4.09 | 21.3 |
| U.S. Share | 4.79 | | 0.96 | | 3.83 | |
| Second World | 18.57 | 49.9 | 7.64 | 42.3 | 10.93 | 57 |
| Japan Share | 8.96 | | 4 | | 4.96 | |
| EEC Share | 4.97 | | 2.3 | | 2.67 | |
| Third World | 8.2 | 22 | 4.61 | 25.6 | 3.59 | 18.7 |
| Hongkong, Macao | 5.18 | 13.9 | 4.6 | 25.5 | 0.58 | 3 |
| Total | 37.23 | 100 | 18.04 | 100 | 19.19 | 100 |

In terms of trade volume, commodity make-up and trading partners, there has been great expansion in China's trade and economic relations with foreign countries in the past few years, a situation unheard of since the establishment of the People's Republic in 1949. The success results from the adoption of correct policies and measures. The Party's rural economic policies release the peasants' enthusiasm for production and increase the supply of farm and subsidiary products. The system of sharing foreign exchange earnings among producer areas and departments in proportion to the amount of exports each supplies provides incentives for them to explore and tap new sources for export. Many measures have been taken to promote external economic activities such as processing and assembling for foreign customers, compensatory trade, joint ventures and special economic zones. This kind of flexibility blazes a new trail for expanding business, improving management and meeting the changing needs of the market. It also helps China's learning of advanced foreign technologies and modern methods of management.

However, the long-time "Left" mistakes and influence in economic construction have, of course, been reflected in China's trade and economic relations with foreign countries. The chief manifestations were the narrow, one-sided interpretation of the principle of self-reliance and the tendency of promoting autarchy in varying degrees at different periods, resulting in the low level of specialization in China's export commodities, a lack of key commodities that are superior in both quantity and quality and an insufficient supply of saleable goods to balance the needs of huge imports. The impetuous drive for quick results in economic construction at the expense of a comprehensive balance led to pointless and redundant imports in disregard of domestic conditions or realities. For instance, the 22 complete sets of plants China imported in 1978, worth 7.8 billion U.S. dollars, plus the auxiliary items that also required huge funding, were definitely beyond the absorbing or assimilating capacity of the national economy. Moreover, export

credit prevailing in technology and equipment trade was not used for importing the plants; instead, the plants were paid for mostly in cash. This strained further the foreign exchange.

III. IMPORTANT MEASURES TO EXPAND ECONOMIC RELATIONS WITH FOREIGN COUNTRIES

China, while upholding the principle of self-reliance, has adopted a series of major measures in her economic relations with foreign countries in the past few years to make active and effective use of international economic and technical co-operation to promote socialist modernization. Chief among the measures are the use of flexible modes of trade to expand exports, the utilization of foreign funds in an active and prudent manner, and the adoption of special policies and flexible measures for Guangdong and Fujian provinces in their economic relations with foreign countries.

1. USE OF FLEXIBLE MODES OF TRADE TO EXPAND EXPORTS

Keeping to the principle of equality, mutual benefit and respect for each other's independence and sovereignty, China is using all the customary methods in international trade in a flexible manner. Some of these methods were adopted before, but forcibly dropped during the "cultural revolution", such as manufacturing brand goods, neutral packing and processing according to buyer's samples. Manufacturing brand goods means that certain export commodities use the trade marks designated by the clients or the Chinese trade marks of these commodities bear the name of the buyer's firms or related signs. Neutral packing means that certain export commodities would not bear Chinese trade marks, would not be marked with "Made in China" or give any hint of the manufacturer's origin. Processing according to the buyer's samples means

manufacturing for export according to the designs, specifications and packing required by the clients. Practices of this kind better satisfy the needs of different markets and trading partners, help clinch a deal, expand exports and increase foreign exchange earnings. Some of them can help Chinese commodities enter markets or sales channels under the control of foreign clients, some can help China in avoiding restrictive or discriminatory measures against her goods or facilitating their transit, while others can help Chinese commodities become more competitive, attract orders and sell at a good price.

More important than any of the practices described above is the processing with supplied materials and assembling of supplied parts, a method developed in recent years. Under this method, a client provides the raw or other materials, parts and components to be processed or assembled by a Chinese enterprise or enterprises according to the client's requirements. The finished products are delivered to the client who then markets them. The Chinese enterprise receives a processing fee according to the provision of the contract. Cost for the equipment which the client may provide if necessary is paid by instalments out of the processing fee.

China has many favourable conditions for developing the processing and assembly business. Firstly, she has a rich pool of labour power, Chinese people are industrious, and their wages are low. All this is most suitable for an industry that is labour-intensive. Second, some of our industrial centres and coastal regions are favourably endowed with a sizable technical force and a processing capacity. Furthermore, they have the kind of facilities that can easily ship out the processed or finished products. Third, governments at all levels attach great importance to the business and have adopted various measures to support it.

This processing and assembly business has developed fairly quickly. By mid-1980, China had signed more than 6,300 contracts on processing and assembly with firms in Hongkong and Macao and overseas firms. The processing fees earned ac-

cording to the contracts presently under implementation were expected to reach 90 million U.S. dollars. Guangdong was leading in this field, having signed more than 3,600 contracts, or 57 per cent of the total. The processing fees it expects to earn come to two-thirds of the nation's total earnings in this business. Next came Shanghai, Fujian, Jiangsu, Guangxi, Beijing, Tianjin and others. Partners in this business were mostly Hongkong and Macao firms, followed by those in Japan, the United States and Western Europe. The products involved were mainly textiles, garments and other light industrial goods. There were also a lot of electronics products, metal fittings, tools and machinery.

This business, if well-managed, will benefit both China and her clients. The clients can have their products manufactured according to their specifications, and the low processing fees and the supply of inexpensive, saleable goods assure them of a good market and huge profits. Through this business, China will be able to promote her own exports and earn more foreign exchange; to tap the potential of existing plants and provide more jobs; and to learn advanced foreign technologies and improve the level of business management. Practice in the last few years shows that China benefits mainly from the latter two aspects because most of the contracts signed by the end of 1980 involved no large sums of money — merely the processing or assembling of medium- and low-grade products where the fees were limited. From the point of view of development, the advantage of China's rich human resources should be utilized as much as possible by stepping up workers' training and raising their technical level so as to elevate the processed products to the medium- or high-grade variety and to have more processing and assembling processes involved in the same products done within China. With regard to processing and assembling some products, as many as possible of China-made parts and components should be used so that gradually China needs only to import a few key parts or related components. At the same time, management should be improved

and labour productivity raised. In 1980, some processed and assembled goods were up to standard and the productivity was high, but in others the productivity actually declined. Besides, efforts should be made to avoid competition in foreign markets between the goods China processed or assembled and her own exports, as there is the danger that the former may take away from China her traditional market or her export quotas in countries concerned. There must be unified plans and more effective control in expanding this line of business.

2. ACTIVE AND PRUDENT UTILIZATION OF FOREIGN FUNDS

International experience shows that under given conditions rational utilization of foreign funds is an effective means to speed up economic growth. Our country has a huge population but a poor economic foundation, and per-capita income is low. It is, therefore, advisable to import foreign capital as a complementary source of funds for China's economic construction. China is an independent socialist country, and the state controls the national economic arteries, a control which enables it to make more effective use of foreign funds. At present, the Western countries, having large amounts of surplus funds, are eagerly seeking safe and profitable areas for investment. They provide China with the opportunity of acquiring and using foreign funds. As long as China adheres to the correct policies and makes active and prudent use of foreign funds, she can surely reap good results.

To make effective use of foreign funds, the State Council has established the state Foreign Investment Commission and the China International Trust and Investment Corporation. In addition, trust and investment companies have been set up in Guangdong, Fujian, Shanghai, Beijing and Tianjin. The state Commission for the Control of Import and Export Affairs, the Ministry of Foreign Trade and the Bank of China also strengthened their work in this field. The National People's Congress

and its Standing Committee have enacted and promulgated relevant laws. Among them are the Law of the People's Republic of China on Joint Ventures with Chinese and Foreign Investment (July 1979), the Income Tax Law of the People's Republic of China Concerning Joint Ventures with Chinese and Foreign Investment (September 1980), the Individual Income Tax Law of the People's Republic of China (September 1980), Detailed Rules and Regulations for the Implementation of the Income Tax Law of the People's Republic of China Concerning Joint Ventures with Chinese and Foreign Investment (December 1980), Detailed Rules and Regulations for the Implementation of the Individual Income Tax Law of the People's Republic of China (December 1980), and Provisional Regulations of the People's Republic of China for Exchange Control (December 1980).

The forms in which China utilizes foreign funds are of three types: financial credit, commodity credit and direct investment.

(1) Financial credit.

"Financial credit" means the borrowing of funds from foreign governments, private banks and enterprises and international organizations and the raising of funds in the international money market. In the past, foreign funds were used through local deposits in the overseas branch offices of the Bank of China and other institutions. The following are the more important forms China uses now:

Export credit: This credit is provided by foreign states or private banks to support firms of their own countries in exporting complete plants to China or concluding important deals with China. It is divided into seller's credit and buyer's credit. Seller's credit is in essence a commercial credit provided by foreign firms after they have obtained medium- or long-term loans from foreign banks. For instance, a foreign firm which is to export equipment to China in the mode of deferred payment, gets a loan from a foreign bank for turnover. Buyer's credit is in essence a banker's credit directly provided by a foreign bank to a bank or enterprise in China. The loan thus

obtained will be used to buy the equipment exported by a foreign firm and then repaid by instalments. Buyer's credit is presently the most important form in which China utilizes foreign funds. By 1980, China had signed export credit agreements with more than ten countries including Britain, France, Italy, Canada, Sweden and Norway, the credit totalling 12.7 billion U.S. dollars. But the amount China actually uses is still very small.

Government credit: This credit is chiefly the loan provided to China by the Japanese Overseas Economic Co-operation Funds in connection with six construction projects, including two ports, three railways and a power plant. The annual amount is determined through consultation in accordance with the progress of the projects. The sum for 1979-80 was 106 billion Japanese yen (equivalent to more than 400 million U.S. dollars) on a 3 per cent interest. The principal will be repaid from the 11th year on for a 30-year period. The Export-Import Bank of Japan also extended a loan of 1.5 billion U.S. dollars for energy development, to be used mainly in coal mining and oil field construction. The loan is to be repaid after each of the projects goes into operation, for a period of 15 years on a 6.25 per cent interest. The Belgian Government also made an interest-free loan of 31.5 million U.S. dollars to China mainly for the purchase of power station equipment; the loan will be repaid over a period of 50 years.

Dealings between Banks: The Bank of China has signed accords with a number of foreign banks (such as the Chase Manhattan Bank of the United States) on depositing money in each other. This fund can be used for a short period (within one year). In 1980, the China International Trust and Investment Corporation also reached a similar agreement with the Bank of America.

Raising funds on international money market: For instance, free foreign exchange funds can be borrowed on the European capital market for a period of three to five years, but the interest rate is rather high.

Loans provided by international organizations: The International Monetary Fund has granted a SDRs loan of 450 million U.S. dollars to China. China has also been negotiating with the World Bank and the International Development Association on borrowing. It is both advisable and necessary for China to win medium- and long-term, low-interest loans from international organizations for exploiting her energy resources and strengthening her own financial infrastructure.

By the end of 1980, the credit agreements China signed had reached 20 billion U.S. dollars in value. But most of them deal with export credit which can only be used to purchase imported equipment. The amount of foreign exchange at China's disposal is limited. The amount China has already used is small.

(2) Commodity credit.

"Commodity credit" means primarily credit used in compensatory trade and certain processing and assembly business. The procedure is for clients to provide technology, equipment and necessary raw and other materials to be used in manufacturing or in exploiting natural resources, and the debt will be then repaid in products by instalments. The credit is commodity credit. In some types of processing and assembly business, the clients have to supply certain machinery and equipment that will be paid for out of the processing fees by instalments. The credit is a commodity credit too. Compensatory trade usually follows two modes of compensation:

(a) By direct products, that is, by the products manufactured through the technology and equipment provided by the clients. This kind of compensation is customarily referred to as "buy back." Many foreign firms are interested in China's raw materials and energy and so are willing to adopt this mode of payment, as, for instance, in the mining of non-ferrous metallic ores.

(b) By other products. If the direct products are not what the clients need or deal in, the payment can be made in

other products of equal value. This procedure is customarily referred to as "counter purchase."

The practice of using processing fees to pay for the equipment in instalments, as it is done in the processing and assembly business, is a compensatory trade where payment is made in labour service. This kind of compensatory trade is normally combined with the processing and assembly business.

Compensatory trade, when properly employed, can benefit both parties, Chinese and foreign. Foreign firms can promote the sales of their technology and equipment without being restricted by China's ability to pay in cash, and can obtain a stable supply of products (especially raw materials) at a price lower than the prevailing market price. The chief benefit to China is that she can import foreign technologies and equipment without using cash, and the products manufactured, apart from being used as payment to the clients, can be sold on the international market for foreign exchange. But the practice of compensatory trade in China has come up with some obstacles. Agreement is hard to reach on the "buy back" of the products, especially finished products, mainly owing to sharp competition on the international market; in "counter purchase," the clients often demand goods that sell well, a demand that is contradictory to the purpose of earning foreign exchange through sales of Chinese goods. On some occasions, the clients provide outdated technologies and equipment and then ask for a high price. This, of course, is unacceptable to the Chinese side. But difficulties can be overcome if both sides observe the principle of mutual benefit and consult each other in a friendly spirit. In 1980, China concluded over 350 medium and small items of compensatory trade with foreign firms, involving the import of technologies and equipment worth 100 million U.S. dollars. In addition, three big deals of compensatory trade involved the import of technologies and equipment valued at 87 million U.S. dollars. If the technologies and equipment imported in compensatory trade before 1980 are added,

the total sum of foreign funds China utilizes via compensatory trade is estimated to reach 300 million U.S. dollars.

(3) Direct investment.

Direct investment includes joint ventures with Chinese and foreign investment and enterprises with sole foreign investment. Since the latter can be found mostly in China's special economic zones, it will be covered in the section dealing with these zones.

As defined by the United Nations Industrial Co-operative Organization, there are two forms of joint venture: contractual and equity. A contractual joint venture is an enterprise run jointly by a foreign firm that provides equipment, capital, industrial property right and technical know-how and by the host country which provides land, factory buildings and labour service. From a legal point of view, the joint venture is not a new, independent entity and is not governed by the corporation law. The partners share the profits according to the contract, upon the expiration of which the technology and equipment will become property of the host country. In China, this kind of business is often referred to as a "co-operative enterprise." In an equity joint venture, capital is derived from pooling of funds by both Chinese and foreigners who together run the enterprise and assume responsibility for profit or loss. The enterprise itself is a legal person. The profits are divided according to the number of shares each side holds.

Joint ventures with Chinese and foreign investment constitute an economic sector which has the nature of state capitalism. In China today, with the socialist public ownership occupying a predominant position, joint ventures account for only a very limited proportion in the national economy. Besides, their economic activities are governed by Chinese laws. Foreign capital in the joint ventures will by no means affect China's socialist orientation. It will, instead, be absorbed into the orbit beneficial to China's socialist economic construction and modernization.

Through joint ventures foreign capital may help the export to China of technology, equipment, parts and fittings which, when combined with China's rich natural and human resources, are most beneficial to the development of labour-intensive enterprises, or enterprises that require more land, raw materials and energy. A combination of this kind will lower production cost and increase profit. Some joint enterprises may sell their products or provide labour services in China. This is just opening up another overseas market. As for China, she can first of all utilize foreign funds, technology and equipment as a supplement to the accumulation that is needed for China's economic construction. Furthermore, because the contracting parties assume joint responsibility for profit or loss, those who provide foreign capital are naturally most concerned about making the most of the advanced technology and equipment as well as improving the management. This concern will in turn promote the transfer of advanced technology, the passing-on of managerial experience and the training of technical and managerial personnel China badly needs. Finally, China may fill in some gaps in production, upgrading and updating products, raising export competitiveness and increasing foreign exchange earnings. Therefore, it is in accord with China's immediate and long-range interest to select the best possible items for joint ventures and strengthen the weak links in the national economy. Both China and foreigners will benefit.

By the end of 1980, more than 360 items of joint venture had been approved either by the State Foreign Investment Commission or by the related provinces and municipalities upon the commission's authorization. They, with a total of 1.5 billion U.S. dollars of foreign funds, fall into four categories:

(a) Equity joint venture: The approved 22 joint ventures are located in Beijing, Tianjin, Hebei, Jiangsu, Zhejiang, Fujian, Guangdong and Xinjiang, with a total investment of

more than 200 million U.S. dollars, of which 170 million are foreign funds.

(b) Contractual joint venture, i.e., co-operative enterprises. There are more than 300 co-operative items, mostly located in Guangdong and Fujian, totalling 500 million U.S. dollars of foreign funds.

(c) Co-operative exploration of offshore oil: Tens of companies from a dozen or more countries have conducted seismic surveys in the waters of the Bohai Sea and the South China Sea. The Chinese side will call upon interested parties to bid for exploration in promising areas. Companies that have participated in seismic surveys do not automatically have the right to exploration, but they are entitled to take part in the bidding. Once the feasibility of commercial production is confirmed, further negotiations will be held on organizing joint venture companies or other business forms to go ahead with the development. At present, the China Oil and Natural Gas Exploration and Exploitation Corporation has signed contracts with the Japan National Oil Company and the National Elf Aquitaine of France for joint exploration in the Bohai Sea. The Chinese corporation is also conducting joint exploration in the Beibu Gulf of the South China Sea with the Compagnie Francaise des Petroles. Talks are under way with American companies for the joint exploration of the Yinggehai area of the South China Sea. Initial results of the exploration in the above-mentioned areas show promising prospects.

(d) Thirty-one joint ventures have been set up abroad and in Hongkong and Macao. Of these, ten are approved by the State Foreign Investment Commission. As for the rest they are approved by commission-authorized departments, namely, ten by the Ministry of Foreign Trade, five by the Ministry of Communications, two by the Bank of China, one by the Ministry of Building Materials Industry, and three by Shandong Province.

3. ESTABLISHMENT OF SPECIAL ECONOMIC ZONES

Several areas in Guangdong and Fujian provinces were designated in 1979 as special economic zones in accordance with the decision of the central authorities on the special policies and flexible measures to be adopted by the two provinces in their external economic relations. Foreign businessmen, overseas Chinese and Hongkong and Macao compatriots are welcome to invest and open factories or to undertake any other form of economic, scientific and technical co-operation. Special economic zones are somewhat different from the "free trade zones" and "export processing zones" set up in some other countries in that they are more wide-ranging in economic activities. The "free trade zones" are designed to make use of existing advantages in geographical position and transport facilities to boost transit trade and to promote the growth of related activities of banking, insurance, shipping and telecommunications. The "export processing zones" are aimed at attracting foreign investment, developing export-oriented industrial activities and boosting export trade. The special economic zones in China not only have the above functions; but they will also help expand scientific and technical exchanges, develop tourism and promote the exploration of resources and the economic prosperity in the two provinces and adjacent areas. Therefore, special economic zones will become ideal places for investment by foreign businessmen, overseas Chinese and Hongkong and Macao industrialists and businessmen. This can be seen from two aspects.

(1) The special economic zones open up broad possibilities for economic, scientific and technical co-operation between China and foreigners and offer investors greater opportunities and more room for choice. These zones not only adopt the forms of processing and assembly, compensatory trade and co-operative production, but will also set up scientific and technical experiment centres, tourism facilities and relevant infrastructures and services. Joint ventures and enterprises

with sole foreign investment may exist side by side. One can invest in light industry, the chemical industry producing goods for daily use and other lines of production that require small investment and gain quick returns. On the other hand, there could be large investments in shipping, storage, construction, banking, insurance, commerce, telecommunications, animal husbandry, plant cultivation and ocean fishing.

(2) The special economic zones provide preferential treatment for investors and assure them of good returns. In line with the customary practices among nations, the special zones are located beyond the reach of the customs house, and no export or import duties will be levied. If investors want to market their products inside China, however, they have to pay import duties according to law. Nevertheless, enterprises in the special zones are exempted from the integrated industrial and commercial taxes as levied in the other parts of China. As for income tax, it is generally lower than that levied in neighbouring countries or regions; what is more, enterprises may enjoy reduction or remission of the income tax in the first few years of their operation. Tax may also be exempted on the re-invested profits. The land within the special zones is the property of the state, but the investors may rent plots of land by paying fees. To encourage investment, the regulations governing land use, the size of land plots to be used and the fees to be paid are also preferential and generous. Wages in the special zones are higher than those in the other parts of China because the cost of living is higher, but lower than those in many other countries or regions. Besides, China's hinterland can supply the raw and other materials and equipment needed in the special zones so as to reduce the time and cost of transportation.

At present, China's special economic zones are still in the planning stage. It has been decided to set up four zones — Shenzhen, Zhuhai and Shantou in Guangdong and Xiamen in Fujian.

(a) Shenzhen: Separated from Jiulong (Kowloon) by the Luofu Bridge, Shenzhen is connected to Hongkong by rail, water and highway. Two special zones are to be established. One is Shekou Town in the western Shenzhen Peninsula, with an area of 1.03 million square metres. Customarily called Shekou Industrial Zone, it will center on the development of industries. Construction is already under way. The other is located to the west of the city of Shenzhen, in an area that covers tens of square kilometres. It will be a large, comprehensive economic zone.

(b) Zhuhai: Two special zones are planned here. Land levelling is under way. One is located in a two-square-kilometre area in eastern Zhuhai bordering on Macao, and the other is in western Zhuhai.

(c) Shantou: A hundred and eighty nautical miles north of Hongkong, Shantou has been an important port with close trade ties with Southeast Asia. A special zone is planned in an area of six square kilometres in the eastern suburbs of Shantou, an area which has a wide beach and is suitable for sea water fish breeding. Farm fields are available for growing sugar-cane and for building sugar refineries. As this area is close to the mountainous regions in western Fujian and eastern Guangdong, the exploration of mountain resources and the development of enterprises embracing agriculture, industry and commerce will be doubtless promoted.

(d) Xiamen: A traditional port favourably endowed with natural conditions, Xiamen has planned to allocate a 2.5-square-kilometre area in the Huli District in the northwestern part of Xiamen Island as a special zone.

The above shows the large size and extensive business scope of the special economic zones, rare in other parts of the world. It also demonstrates China's stand and determination to pursue an open policy in her economic relations with foreign countries.

IV. REFORM OF THE FOREIGN TRADE SYSTEM

The foreign trade administration is a component of the national economic system. Since the founding of the People's Republic, a highly centralized system has been used to run the national economy, with emphasis put on the administrative means. Foreign trade is no exception. In the early post-Liberation days, there were private capitalist import and export enterprises. In the 1950s, a number of Western countries headed by the United States imposed an embargo on China. Under these conditions, foreign trade must be put under centralized control for a unified stance in order to protect the country's political and economic interests. Therefore, the foreign trade system did play a positive role. At that time, about four-fifths of China's external trade were conducted with the Soviet Union and East European countries. Both China and these countries had a centralized planned economic system. Imports and exports and settlement of accounts proceeded under bilateral governmental agreements. Talks were held once a year to determine the list of goods and money bill for the fiscal year. The prices for the period covered by the agreement were also relatively fixed. A bilateral trade of this kind was most suitable for the above-mentioned foreign trade system. With the expansion of China's economic relations with foreign countries, especially with her shift from a close-door to an open-door policy after 1977, the defects of a highly centralized trade system have become all the more evident, and it has become increasingly difficult for the system to suit the needs of an expanding external co-operation in economic and technical matters to advance China's socialist modernization.

Theoretically, the socialist state monopoly of foreign trade, as explained by Lenin, has been misunderstood. State monopoly has been interpreted as placing foreign trade in the hands of one single department and relying solely on the state's mandatory plans and administrative interference to regulate

all foreign trade and economic activities. In practice, the over-concentration of power in running foreign trade and a rigid control in administration dampen the enthusiasm of the various departments and regions for opening up more supply sources and expanding exports. As producers are not allowed to take part in negotiations and business deals with foreign customers, the inevitable result will be the dislocation between production and sales. Besides, under a management system that relies heavily on administrative means, both the producers and the foreign trade companies are bound to follow the same practice of "sharing food from the same big pot", affecting the economic results of both import and export. Therefore, the reform of the foreign trade system has been under way side by side with the restructuring of the economic system in recent years. This fundamental step has been taken in the interest of China's socialist economic construction and is of far-reaching importance. We'll discuss it in three aspects: the current foreign trade system, preliminary reforms and problems, and the orientation and tentative idea of further reform.

1. THE CURRENT FOREIGN TRADE SYSTEM

Shortly after Liberation in 1949, China's foreign trade was under the administration of the foreign trade department of the Ministry of Trade of the Central People's Government. The Ministry of Foreign Trade was established in 1952 to exercise centralized leadership and administration of the country's external trade. A number of specialized import and export corporations were subsequently formed under the principle of separate operation of the different categories of commodities. The national corporations are placed under the leadership of the Ministry of Foreign Trade, and their branches in the trading ports and hinterland are under the dual leadership of the related national corporations and the local foreign trade departments. These specialized corporations are socialist state-

owned enterprises which handle in a concentrated way the import and export business throughout the country, and no other departments or units are allowed to trade directly with foreign firms.

Export and import activities are conducted according to the state mandatory plans. The import plan is drawn up by the State Planning Commission with the participation of the Ministry of Foreign Trade and other ministries and various localities in line with the needs of socialist construction and the country's ability to pay in foreign exchange. The export plan is worked out by the Ministry of Foreign Trade which, to bring about coordination and balance, must beforehand consult with the other ministries and various localities in accordance with the requirements for the formulation of the national economic plan. After the import and export plans have been approved by the State Council, the Ministry of Foreign Trade is charged with their implementation, and the foreign trade bureaus in the provinces, municipalities and autonomous regions see to it that the corporations under them carry out the plans. The plans are mandatory and cannot be changed without authorization. Any revision, if necessary, must be reported to the higher level and be examined and approved by the State Council.

Import contracts are signed exclusively by the specialized corporations. The goods, upon delivery, are allocated to domestic ordering departments or users at the prices set by the state (roughly equivalent to the prices of the same kinds of goods at home, after making adjustments if necessary). Export goods are either transferred to the foreign trade departments by the related departments according to planned quotas or purchased by the foreign trade units. The purchase prices are either fixed by the national plan or decided by the two sides through consultation; they vary with the types of goods.

Evidently, foreign trade, from the formulation of import and export plans to their implementation, is highly centralized and is conducted mainly through administrative means. From

the 1950s to 1978, China maintained this system by and large with only minor changes. The drawbacks of this system can be summed up as follows:

(1) It is difficult to increase the enthusiasm of the various departments, localities and interested enterprises for tapping their potential in export to earn more foreign exchange for the country.

Because, under the current foreign trade system, all departments and localities other than the foreign trade units and trading ports cannot trade directly with foreign firms, they are not directly charged with the task of earning foreign exchange. As a result, they often come to grapples with the foreign trade units with regard to the sources of export supply, especially when there is a strong demand on the domestic market for the same goods.

From the viewpoint of the producers or suppliers of export commodities, success or failure in performing their duties has nothing to do with their economic interest. They are only asked to turn out goods according to the planned quotas from above and then deliver them to the foreign trade units. At this point, they have "fulfilled" their duties. They are not concerned about whether their products sell well on the international market, how the products are priced, etc. There is a lack of economic incentive which, normally, would have urged the manufacturers constantly to improve the quality of their goods, reduce cost and update products.

(2) It is difficult to integrate industry with trade, link production with sales, ensure the marketability of the export goods or respond quickly to the changes on the international market.

Under the current foreign trade system, the manufacturers of export commodities are unable to know in good time the changes on the international market, or learn of the concrete demands of the customers overseas. Under the circumstances it is extremely difficult to carry out the principle of "producing according to sales" or guarantee the saleability of the products.

It is all the more so for the products that require more technical skills to make or involve more complicated grading and specification.

(3) It is difficult to act according to economic laws, strengthen business accounting and improve economic results.

Under the current foreign trade system, not only are the import and export tasks laid down in the national plans; but it is also the state financial departments that get profits or cover losses in foreign trade. Not only are the transfer or purchase prices of the export goods at home fixed by the state, but the range of the export prices is also set by the national corporations (or the trading ports) in view of international market quotations. As a result, foreign trade corporations often pay attention to the fulfilment of the purchase and export value quotas to the neglect of cost, foreign exchange earnings and other financial goals. Generally speaking, they are content as long as the rate of loss is not higher than that set by the state.

2. PRELIMINARY REFORMS AND PROBLEMS

To strengthen leadership and administration and to carry out reforms of the foreign trade system, the State Commission for the Control of Import and Export Affairs was established under the State Council with the approval of the Standing Committee of the National People's Congress on July 30, 1979 at its tenth meeting. The State Council approved the Regulations on Some Questions Concerning Rapid Development of Foreign Trade and Increase of Foreign Exchange Earnings and other documents. Reform thus began in the following areas:

(1) Enforce differentiated control of commodities and enlarge the power of localities in managing foreign trade.

Import and export commodities are controlled and dealt with at two levels — the central and local. Provinces, municipalities and autonomous regions, if they are able to do so,

may either export locally produced commodities or import needed items by using locally available foreign exchange. The specialized national corporations under the Ministry of Foreign Trade confine themselves to the import and export of a few important commodities such as crude oil, oil products and cereals.

Seven foreign trade corporations were formed in Beijing, Tianjin, Shanghai, Liaoning, Hebei, Guangdong and Fujian under the dual leadership of local governments and the Ministry of Foreign Trade, with the former assuming the chief responsibility. They are given more power of management, keeping independent business accounting and arranging all the import and export in their respective areas. But this measure was not carried out in full in 1980 owing to varying conditions.

(2) Open up more channels of foreign trade with central government departments directly engaging in external dealings.

In addition to the 11 specialized national corporations under the Ministry of Foreign Trade, 17 foreign trade companies engaging in direct external dealings were set up by various ministries and commissions under the Central Government with the approval of the State Council. They were the China National Machinery and Equipment Import and Export Corporation and its branches under the First Ministry of Machine-Building Industry, the China Corporation of Atomic Energy Industry under the Second Ministry of Machine-Building Industry, the China National Aero-Technology Import and Export Corporation under the Third Ministry of Machine-Building Industry, the China Electronics Import and Export Corporation under the Fourth Ministry of Machine-Building Industry, the China Corporation of Shipbuilding Industry under the Sixth Ministry of Machine-Building Industry, the China Yanshan Scientific and Technological Corporation under the Ministry of Petroleum Industry, the China Metallurgical Import and Export Corporation under the Ministry of

Metallurgical Industry, the China National Seeds Import and Export Corporation and the China National Breeding Stock Import and Export Corporation under the Ministry of Agriculture, the China New Building Materials Corporation under the Ministry of Building Materials Industry, the China Complete Plant Export Corporation under the Ministry for Economic Relations with Foreign Countries, the China Film Export and Import Corporation under the Ministry of Culture, as well as the North China Industries Company, the China Precision Machinery Import and Export Corporation, the China New Age Corporation, the China Great Wall Industry Corporation, and the China Oriental Import and Export Corporation. Besides, the Academy of Sciences of China, the Academy of Social Sciences of China, the State Scientific and Technological Commission and the Ministry of Education may also engage in related external economic activities.

(3) Integrate industry with trade in a variety of forms on a trial basis.

With a view to achieving a closer relationship between industry and trade and bringing together producers and sellers, the experience of Shanghai and Tianjin has been popularized as an example to follow. In this experience foreign trade companies, industrial departments and manufacturing enterprises jointly run day-to-day operations, arrange production, negotiate with foreign clients and organize sales promotion groups abroad. The foreign trade companies make the export prices known to the industrial departments and the manufacturing enterprises, while the latter keep the former informed of the production cost.

The combination of industry and trade takes many forms on a trial basis. In some cases trade is the major partner. An example is the combination of the relevant departments under the Ministry of Chemical Industry with the National Chemicals Import and Export Corporation under the Ministry of Foreign Trade for the export of chemical products, with the Ministry of Foreign Trade assuming the chief responsibility for leader-

ship. In some cases industry is the major partner in the combination. For instance, the Shanghai Toys Company is combined with the Shanghai Foreign Trade Corporation for the production and export of toys, with the Shanghai Light Industry Bureau assuming the chief responsibility for leadership. There are other combinations in which the industrial departments are responsible for the manufacture of export commodities and the foreign trade departments are responsible for dealing with foreign clients and honouring obligations. Both industry and trade share economic risks as well as gains.

(4) Institute the system of retaining a portion of foreign exchange earnings from the export of commodities.

At first, various departments and localities retained a certain percentage of foreign exchange earnings in proportion to the increase in the purchase value of goods for export over that of the previous year. But not all the purchased goods were exported overseas. To avoid the tendency of making excess purchases for the sake of retaining more foreign exchange earnings, the method is replaced by one of retaining a share of the foreign exchange earnings in proportion to the actual export value in excess of the preceding year's. Part of the retained portion would be given to the counties and manufacturing enterprises which supply the export goods. The new method not only increases the enthusiasm of the various departments, localities and enterprises for export but also makes it possible for them to import materials and goods needed for expanding production and business.

(5) Fix, for internal settlement, the price of foreign currencies earned through trade.

In the past when foreign trade was monopolized by the Ministry of Foreign Trade, the profits from imports could be used to compensate for the deficits in exports. Following the extension of the power of management in foreign trade, some departments, localities and enterprises may engage either in export or in import exclusively. None, therefore, can resort

to the practice of making up for the deficits by the profits as the Ministry of Foreign Trade has done. To meet the reform requirements of the foreign trade system and to enable the departments, localities and enterprises engaging in external trade gradually to assume sole responsibility for their own profits or losses and do independent business accounting, it was decided that as of January 1, 1981, the prices of all import and export commodities were to be settled among the domestic units at the rate of one U.S. dollar for every 2.8 yuan RMB. This rate is determined in the light of the average cost of the country's export commodities in earning foreign exchange. The reason for this is that China's internal price system and wage level vary greatly from those abroad. Generally speaking, the prices of the domestic farm and subsidiary products are slightly too low while those of the domestic industrial products are a little too high. If their prices are settled according to the listed RMB rate of exchange, the export of many industrial goods will result in deficits whereas the export of some farm and subsidiary products will yield profits. This will harm the export expansion of industrial goods after reform has been introduced into the foreign trade system. Introducing a price of foreign exchange earned through trade for internal settlement is the only way to support exports effectively and carry out business accounting. Hence, fixing an internal settlement price is chiefly designed to help reform the foreign trade system. It cannot be applied to non-trade activities, nor can it be equated with the listed RMB rate of exchange. Certainly it does not imply that a devaluation of the RMB with respect to foreign currencies has taken place.

Preliminary reforms as described above have increased the enthusiasm of all quarters and led to a brisker foreign trade. But some shortcomings and deviations have appeared on the road of advance. A notable problem was the confusion when various units were doing business with foreign firms. They vied with one another for market, customers and goods supply to the point of selling goods at a discount

and throwing their own ranks off balance. A competition of this kind resulted in China's losses, both political and economic. Many factors were behind this phenomenon, such as the lack of investigation and study, insufficient preparations, absence of coordination and inefficient control. Besides, some rules and regulations, though made public, were not implemented in earnest. But the worst culprit was the separation of power from responsibility; It was not the units in charge of external trade but the central financial departments that assumed responsibility for profits or losses. Doing things in this manner could not prevent the bad consequences of selling goods at a discount.

The departments concerned took effective measures to solve this problem. Chief among the measures was strengthening of control and the assumption of a unified stance in external dealings. It must be noted, however, that the current reform of the foreign trade system is correct in orientation and will open up a road of advance in the future. Strengthening control and assuming a unified stance in external dealings by no means spells "backpedalling"; on the contrary, it is meant to continue the reform of the foreign trade system in a more effective way in the future.

3. THE ORIENTATION AND TENTATIVE IDEA OF FURTHER REFORM

The socialist economy is a planned economy based on the socialized mass production, in which the public ownership of the means of production takes a predominant position. By its very nature, it is incompatible with the natural economy. The development of the socialist economy demands, internally, organized co-operation among specialized units by breaking the barriers between administrative departments and localities and, externally, extensive international economic exchange on the basis of self-reliance by breaking economic seclusion

and autarchy. The restructuring of Chinese economic systems must all reflect this demand. The reform orientation of the foreign trade system, in principle, must conform to the restructuring of the entire national economy. It can be summarized as follows:

(1) The enthusiasm of all quarters must be further mobilized for developing the socialist economy and foreign trade.

(2) Administration and enterprises must be separated so that the latter will become relatively independent economic entities with an internal driving force of their own instead of an appendage to the administrative departments. Enterprises engaging in foreign trade should also become independent entities, having their own business accounting and assuming sole responsibility for profits or losses. The organization of imports and exports by relying mainly on administrative means and the deplorable situation of "sharing food from the same big pot" must be changed.

(3) Industry (or agriculture) and trade must be combined to bring producers and sellers together.

(4) It is imperative to utilize market regulation under the guidance of national planning, give full play to the role of prices, profits, taxes and other economic levers, and do a good job in foreign trade.

(5) It is necessary to promote sales on the international market and organize sales tours.

(6) Necessary control systems must be established; there must be a unified stance in external dealings while striving to ensure a quick response to the changing needs of the market.

Like the restructuring of other Chinese economic systems, the reform in foreign trade cannot be carried out overnight. It must take a fairly long time to allow for experiments, summing-up of experience, revisions and improvements. A tentative idea of the reform covers the following points:

(1) There are two types of business enterprises. One type comprises manufacturers that have been approved and empowered to engage in external trade or their associations.

The other type consists of specialized foreign trade corporations that can act as agents for others in foreign trade or act on their own behalf, purchasing and procuring important goods in bulk or farm and subsidiary products the supply of which is widely scattered. Besides, there should also be specialized companies providing such services as transportation, storage, packing and advertisement.

(2) There should be different forms of integrations under the principle of voluntary participation and mutual benefit:

(a) Trusts — Trusts are regional or national organizations that combine production, supply and marketing, integrate domestic with external trade and practise unified business accounting.

(b) Joint establishments — Joint establishments appear in a variety of forms, often loosely knit. Participating enterprises conclude external trade deals as a unit, but they keep separate business accounting; they perform common duties and share economic gains. A joint establishment may embrace three parties — for instance, a textile mill producing fabrics, a clothing factory and a garment export company.

(c) Foreign trade centres — They are service and transaction centres established in important trading ports, providing such services as storage and consultation. They may also organize comprehensive or specialized fairs, at which participating domestic units can join forces and conclude external transactions as a unit, but each has its own business accounting and delivers goods its own way. The participants must pay trade centres for service rendered.

(d) Exporters' associations — These associations are non-governmental organizations composed of enterprises exporting the same types of commodities; they are similar to trade associations or guilds. They can present views to the government on behalf of their trades, and coordinate their members' external activities, exchanging information and experience.

(e) A wide-ranging network of international sales and market intelligence should be organized by enlisting the as-

sistance of interested institutions at home and abroad, such as foreign trade companies, manufacturing enterprises, banks, commercial agencies stationed abroad, news agencies, institutes of scientific research, and universities and colleges.

(f) The state's guidance with respect to foreign trade plans and policies must be strengthened; so must be its administrative control. Foreign trade plans can be either mandatory or suggestive.

At present, China is carrying out the principle of readjusting the national economy, and success in the readjustment is a prerequisite to the implementation of all-round reforms. Any reform must be beneficial to the readjustment. The same thing can be said about the reform of the foreign trade system, which must proceed actively and prudently around the economic readjustment.

V. THE READJUSTMENT OF THE NATIONAL ECONOMY AND FOREIGN TRADE

Foreign trade must serve the readjustment of the national economy; it can make its own contribution in this regard.

First of all, by expanding exports to promote industrial and agricultural production and by boosting imports to develop exports such as engaging in processing and assembly, it is possible not only to open new markets for some domestic units and enterprises with unused production capacity but also to create more jobs. Certain units and enterprises, with the aid of foreign trade, may switch to the manufacture of saleable products. All this will help create favourable conditions for the step-by-step attainment of the proportionate development of the economy and for the improvement of the setup of production as a whole. The import of necessary raw materials and goods may boost the growth of agriculture and light industry, and the import of some consumer goods may improve the domestic market and help the life of the people.

Next, continuing to utilize foreign funds actively and prudently and to conduct economic, scientific and technical co-operation will help existing enterprises tap their potential and introduce technical renovations, and promote the exploration of energy resources and the strengthening of transport, communications and other parts of the infrastructure. These are major items in the economic readjustment.

Finally, foreign trade needs to be readjusted too. Success in the readjustment will enable foreign trade to play a more effective role in the economic readjustment as a whole. In terms of the rate of growth, foreign trade has done very well in the last few years. In the course of the economic readjustment in the years to come, imports should be appropriately controlled so as to eliminate the unfavourable balance. As for commodity structure, the import of machinery and electrical equipment and instruments should be reduced as well as high-grade consumer goods. In exports, efforts should be made to raise the quality of commodities and switch from exporting chiefly medium- and low-grade goods to medium- and high-grade ones. Commodities that incur large losses should no longer be exported. Huge complete plants should not be imported again but technologies and key equipment should. If the above-discussed readjustment of foreign trade is carried out, it will help the attainment of some goals in the economic readjustment: eliminating trade deficits, achieving a balance in international payment, reducing losses in foreign trade and balancing the state budget.

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COMMUNIQUE ON THE FULFILMENT OF CHINA'S 1981 NATIONAL ECONOMIC PLAN

Issued by the State Statistical Bureau of
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April 29, 1982

The people of all nationalities in China, under the leadership of the Chinese Communist Party and the people's government, worked hard and obtained remarkable results in 1981 in implementing the policy of further readjusting the national economy. China's revenue and expenditures were basically balanced, and prices in general stable. The year of 1981 also saw continued improvement in the proportions among major sectors of the national economy, and expansion of production and construction. The total value of annual industrial and agricultural output, calculated with 1980 constant prices as the base, was 749,000 million yuan, up 4.5 per cent compared with 1980.* The preliminary estimate of national income is 388,000 million yuan which, calculated with 1980 constant prices as the base, was up 3 per cent.** Domestic and international trade grew and people's living standards were continuously improved with the development of production. Nevertheless, the balance achieved between revenue and expenditure was not consolidated and, while efforts were made to basically stabilize prices, prices for some commodities rose. The economic results for most departments and enterprises

* All figures in the communique do not include those of Taiwan Province.

** The 1980 national income has been adjusted from 363,000 million yuan to 366,000 million yuan according to the final state accounts.

were not satisfactory and energy production dropped slightly. The increased production of consumer goods failed to keep pace with that of social purchasing power.

Fulfilment of plans by various departments of the national economy is as follows:

1. AGRICULTURE

In 1981, many parts of the country were hit by serious floods and drought. Despite this, China achieved good harvests. Credit goes to the fact that the correct policies of the Communist Party and the government were seriously implemented, the production responsibility system in various forms was instituted and improved, and efforts were made to diversify the rural economy, thus raising peasant enthusiasm for production. The total value of agricultural output, calculated at 1980 constant prices, was 231,200 million yuan, 1.8 per cent above the 1981 annual plan and 5.7 per cent over the 1980 figure.* Of this, the total output value of farm crops was 148,900 million yuan, 5.3 per cent over 1980; the corresponding figure for forestry was 9,500 million yuan, up 4 per cent; for animal husbandry and fishery, 39,700 million yuan, up 6 per cent; and for rural sideline production, 33,100 million yuan, up 6.8 per cent (of this, the total output value of industries run by production brigades and teams was 27,800 million yuan, 9.3 per cent over 1980). As regards the output of the eight major farm products, the total output of grain exceeded that of 1980, sharp increases were again registered in the output of cotton and oil-bearing crops on top of three consecutive years of growth, and production quotas for sugarcane, beetroot, jute (ambary hemp included), silkworm cocoons and tea were met or overfulfilled. The year also saw a fairly fast expansion of diversified undertakings run by rural communes and their subdivisions, and household sideline of commune members.

* The total value of agricultural output in 1981, calculated at 1970 constant prices, was 172,000 million yuan.

Output of the major farm products follows:

| | 1981 output (tons) | percentage increase over 1980 |
|----------------------|-----------------------|-------------------------------------|
| Grain* | 325,020,000 | 1.4 |
| Of which: Paddy | 143,205,000 | 2.8 |
| Wheat | 58,490,000 | 8.0 |
| Tubers** | 24,995,000 | -10.2 |
| Soybeans | 9,245,000 | 17.3 |
| Cotton | 2,968,000 | 9.6 |
| Oil-bearing crops | 10,205,000 | 32.7 |
| Of which: Peanuts | 3,826,000 | 6.3 |
| Rapeseed | 4,065,000 | 70.5 |
| Sesame | 510,000 | 96.9 |
| Sugarcane | 29,668,000 | 30.1 |
| Beetroot | 6,360,000 | 0.9 |
| Jute and ambary hemp | 1,260,000 | 14.8 |
| Silkworm cocoons | 311,000 | -4.6 |
| Tea | 343,000 | 12.8 |

* The 1980 grain output was adjusted from 318.22 million tons (statistical figures for output of plots for peasants' personal needs were incomplete in some provinces) to 320.52 million tons.

** Five kilogrammes of tubers are counted as one kilogramme of grain.

A total of 4,110,000 hectares were afforested, 9.7 per cent less than in 1980, but the survival rate of saplings was better. Production of some forest products increased by big margins, including rubber at 128,000 tons, 13.3 per cent over 1980; raw lacquer, 2,950 tons, up 20.4 per cent; tung oil tree seeds, 360,000 tons, up 18.8 per cent; and oil tea seeds, 654,000 tons, up 33.5 per cent. The output of walnuts and chestnuts dropped. In some areas, indiscriminate felling of trees was still a rather serious problem.

In 1981, increases were registered in the output of major animal products on the basis of the sharp increases in 1980, but the number of hogs in stock at the end of 1981 and the number of hogs slaughtered dropped.

Output of major animal products and the number of live-stock follow:

| | 1981 | percentage increase over 1980 |
|----------------------------------|------------------|-------------------------------------|
| Pork, beef and mutton | 12,609,000 tons | 4.6 |
| Of which: Pork | 11,884,000 tons | 4.8 |
| Beef | 249,000 tons | -7.4 |
| Mutton | 476,000 tons | 7.0 |
| Milk | 1,291,000 tons | 13.1 |
| Sheep wool | 189,000 tons | 7.4 |
| Hogs slaughtered | 194,947,000 head | -1.8 |
| Hogs in stock at year's end | 293,702,000 head | -3.8 |
| Large animals at year's end | 97,641,000 head | 2.5 |
| Sheep and goats at year's end | 187,730,000 head | 0.2 |

The total output of aquatic products was 4,605,000 tons, 12.3 per cent over plan and 2.4 per cent over the 1980 figure. Among them, output of fresh-water products was up 10.8 per cent; that of marine products, however, dropped 0.8 per cent due to limitations imposed on fishing to protect offshore aquatic resources.

State farms under the authority of land reclamation made fairly big increases in the output of major industrial crops and animal products, but the output of grain by these farms dropped, as the harvest in Heilongjiang Province was affected by serious waterlogging. Their output in cotton was 25.4 per cent over 1980; oil-bearing crops, 28.5 per cent up, and sugar-bearing crops, 23.5 per cent up. Their output in pork, beef and mutton was up 10.3 per cent, and in milk was up 8.2 per cent. These state farms realized profits exceeding 200 million yuan.

By the end of 1981, China had 792,000 large and medium-sized farm tractors, 47,000 more than the previous year. The number of small-capacity and hand tractors reached 2,037,000, an increase of 163,000. Lorries for farm use numbered 175,000, an increase of 40,000. The power-driven irrigation and drainage equipment for farm use totalled 74,983,000 hp, an increase of 338,000 hp over 1980. The country had a fairly great increase in the number of small farm machines and implements. A total of 13,349,000 tons of chemical fertilizer was applied on farms in 1981, an increase of 5.2 per cent over the previous year. China's countryside used 37,000 million kwh of electricity, up 15.3 per cent.

Fairly accurate forecasts were made in good time in 1981 by meteorological departments of drought, flooding and other natural calamities, which occurred on a scale rarely seen since the founding of New China in 1949, and in particular of the extraordinarily great flood peaks in the upper sections of the Yangtze and Yellow rivers.

2. INDUSTRY

There was a sustained increase in industrial production in the course of readjustment in 1981. The total annual output value of industry, calculated at 1980 constant prices, was 517,800 million yuan,* 1.7 per cent above plan and 4.1 per cent over 1980. Output targets were reached or surpassed for 87 of the 100 major industrial products, including cotton yarn, cotton cloth, sugar, salt, bicycles, sewing machines, wrist watches, television sets, coal, crude oil, electricity, steel, rolled steel, sulphuric acid, soda ash, caustic soda and chemical fertilizers. Targets for synthetic fatty acids, asbestos and 11 other products were not reached.

With the further readjustment of the internal structures of industry and active expansion of the production of daily-use consumer goods, light industrial production continued to maintain a fairly high rate of growth in 1981. Total annual light industrial output value, calculated at 1980 constant prices, was 266,300 million yuan, 14.1 per cent over 1980. The proportion of the output value of light industry in total industrial output value increased from 46.9 per cent in 1980 to 51.4 per cent in 1981. Output targets were reached or surpassed for 31 of the 35 major light industrial products which are under state plan, and the output of 21 of them exceeded that of 1980 by a big margin. The output of high-grade products and famous brand quality products increased, with new varieties and designs added.

* Total output value of industry in 1981, calculated at 1970 constant prices, was 519,900 million yuan, of which the total output value of light industry was 267,500 million yuan, and that of heavy industry was 252,400 million yuan.

Output of major light industrial products follows:

| | 1981 output | percentage increase over 1980 |
|---|-----------------------|-------------------------------------|
| Cotton yarn | 3.17 million tons | 8.2 |
| Cotton cloth | 14,270 million metres | 5.9 |
| Chemical fibres | 527,000 tons | 17.1 |
| Of which: Synthetic fibres | 385,000 tons | 22.6 |
| Woollen piece goods | 113 million metres | 11.9 |
| Silk | 37,400 tons | 5.6 |
| Silk textiles | 835 million metres | 10.0 |
| Gunny sacks (excluding olefine fibre bags) | 429 million | 4.4 |
| Machine-made paper and paperboard | 5.4 million tons | 0.9 |
| Sugar | 3,166,000 tons | 23.2 |
| Beer | 910,000 tons | 32.3 |
| Salt | 18.32 million tons | 6.0 |
| Chemical pharmaceu- ticals | 37,300 tons | -7.0 |
| Detergents | 478,000 tons | 21.6 |
| Bicycles | 17.54 million | 34.7 |
| Sewing machines | 10.39 million | 35.3 |
| Wrist watches | 28.72 million | 29.6 |

| | 1981 output | percentage increase over 1980 |
|------------------------------------|---------------|-------------------------------|
| Television sets | 5,394,000 | 120 |
| Radios | 40.57 million | 35.1 |
| Cameras | 623,000 | 67.0 |
| Washing machines for household use | 1,281,000 | 420 |
| Refrigerators for household use | 55,600 | 13.5 |
| Electric fans | 10.5 million | 45.0 |
| Light bulbs | 970 million | 2.1 |

The state in 1981 lowered the output of many heavy industrial products in a planned way to readjust the proportional relations in industry and, calculated at 1980 constant prices, the total annual output value of heavy industry was 251,500 million yuan, 4.7 per cent less than in 1980. Output targets were reached or surpassed for 56 of the 65 major heavy industrial products under state plan, while targets for nine products were not fulfilled; compared with 1980, the output of 24 products increased and 41 decreased, mostly as set in the state plan. New achievements were made in heavy industry in changing its service orientation, reducing the production of some overstocked products, and increasing the output of urgently needed products for daily life and products for export. For example, the output of daily-use electrical appliances and specialized equipment manufactured for light industry by plants under the First Ministry of Machine-Building rose 53 per cent over 1980; the iron and steel and rubber industries registered a fairly big increase in the output of strip steel, sheet steel, tyres for carts and bicycles, and other products

urgently needed on the market; the total exports of heavy industrial products also rose considerably over 1980. Heavy industry made new contributions to the technological transformation of the national economy and the modernization of national defence.

Output of major heavy industrial products follows:

| | 1981 output | percentage increase over 1980 |
|--------------------------------|-----------------------------------|-------------------------------------|
| Coal | 620 million tons | 0 |
| Crude oil | 101.22 million tons | -4.5 |
| Natural gas | 12,740 million cubic metres | -10.7 |
| Electricity | 309,300 million kwh | 2.9 |
| Of which: Hydro-electricity | 65,550 million kwh | 12.6 |
| Rolled steel | 26.7 million tons | -1.7 |
| Pig iron | 34.17 million tons | -10.1 |
| Steel | 35.6 million tons | -4.1 |
| Coke (machine-made) | 31.72 million tons | -6.8 |
| Timber | 49.42 million cubic metres | -7.8 |
| Cement | 84 million tons | 5.2 |
| Plate glass | 30.64 million stand- ard cases | 10.6 |
| Sulphuric acid | 7.81 million tons | 2.2 |
| Soda ash | 1,652,000 tons | 2.4 |

| | 1981 output | percentage increase over 1980 |
|---|--------------------|-------------------------------------|
| Caustic soda | 1,923,000 tons | 0 |
| Chemical fertilizer | 12.39 million tons | 0.6 |
| Of which: Nitrogenous fertilizer | 9.86 million tons | -1.3 |
| Phosphate | 2.51 million tons | 8.7 |
| Potash fertilizer | 20,000 tons | 0 |
| Chemical insecticides | 484,000 tons | -9.9 |
| Ethylene | 500,000 tons | 2.0 |
| Plastics | 916,000 tons | 2.0 |
| Calcium carbide | 1.51 million tons | -0.7 |
| Rubber tyres | 7.29 million | -36.4 |
| Mining equipment | 115,000 tons | -29.4 |
| Power generating equip- ment | 1,395,000 kw | -66.7 |
| Machine tools | 103,000 | -23.1 |
| Motor vehicles | 176,000 | -20.7 |
| Tractors | 53,000 | -45.9 |
| Hand tractors | 199,000 | -8.7 |
| Internal combustion en- gines (sold as com- modities) | 20.04 million hp | -21.1 |
| Locomotives | 398 | -22.3 |

| | 1981 output | percentage increase over 1980 |
|------------------------------|--------------|-------------------------------|
| Coaches Railway passenger | 1,159 | 15.7 |
| Railway freight cars | 8,779 | -17.0 |
| Steel ships for civilian use | 916,000 tons | 12.0 |

As a result of restructuring the mix of industrial products, energy consumption for each 100 million yuan of total industrial output value in 1981 was 6 per cent less than in 1980. However, the economic results of industrial production as a whole were relatively poor. The output value of industrial enterprises owned by the whole people, calculated at 1980 constant prices, was 11,863 yuan per worker and staff member, 1.8 per cent lower than the previous year. Thirty-two of the 65 major quality indices for industrial products dropped, while 48 of the 101 indices for consumption of materials per unit of products rose; total cost of comparable products went up one per cent and the amount of profit turned over to the state went down 8.5 per cent. A total of 27.1 per cent of industrial enterprises still suffered losses to varying degrees. Owing to the blind pursuit by some enterprises of output value and speed in disregard of quality and market demand, the output of some products that should have been limited under the plan also increased blindly, resulting in warehouse overstocking.

3. CAPITAL CONSTRUCTION

A number of projects for which there were no proper conditions for construction were cancelled or suspended in

1981. As a result, the scale of capital construction was curtailed to some extent, while the rate of availability of fixed assets increased. The fixed assets turned over to state-owned units in 1981 through capital construction were valued at 37,100 million yuan, a 13.1 per cent decrease compared with 1980, but the rate of availability of such assets reached 86.7 per cent, a 7.5 per cent increase over 1980. Buildings completed in 1981 totalled 126 million square metres in floor space, 13.1 per cent less than in 1980.

Of the planned targets for increase in the production capacity for 27 major products in 1981, those for 24 products were met or topped, while those for sulphuric acid, plastics and logs were not. Newly added production capacity accounted for by capital construction during the whole year consisted of facilities for producing 13.73 million tons of coal, 5.19 million tons of crude oil, 620 million cubic metres of natural gas, 2.64 million kilowatts of power-generating capacity, 67,000 tons of chemical fibres, 510,000 cotton spindles, 174,000 tons of sugar, 324,000 tons of salt, 44,000 tons of machine-made paper and paperboard, 4.75 million tons of iron ore, 323,000 tons of chemical fertilizer, 1.54 million tons of cement and 297,000 cubic metres of logs. The cargo-handling capacity at newly built or expanded ports was increased by 2.36 million tons.

The 79 big and medium-sized projects completed and put into operation in 1981 include the Liaoyang Petrochemical Fibre Plant, the Changshou Vinylon Plant in Sichuan Province, the Nanjing Alkyl Benzene Plant, the Shentou Power Plant in Shuoxian County; Shanxi Province, and a 500,000-volt power transmission line from Pingdingshan to Wuhan. The 181 single-item projects that were completed and put into operation include two power-generating units at the Gezhouba Hydroelectric Power Station in Hubei Province, each with a capacity of 170,000 kilowatts; the Xinglongzhuang Coal Mine in the Yanzhou coal mining area in Shandong Province, with an annual production capacity of 3 million tons; and a container wharf at Tianjin Harbour, with an annual handling capacity

of one million tons. Three fewer big and medium-sized projects and 35 fewer single-item projects were completed and put into operation in 1981 than in 1980. The ratio that went into operation of big and medium-sized projects to the total number of projects under construction rose from 8.3 per cent in 1980 to 10.6 per cent.

Total investment in capital construction in state-owned units in 1981 was 42,800 million yuan, 11,100 million yuan less than in 1980 or a 20.6 per cent decrease. Of this total, the investment covered by the national budget was 20,800 million yuan, 7,300 million yuan less than in 1980 or a decrease of 26 per cent. One hundred and fifty-one big and medium-sized projects were cancelled or suspended. The number of big and medium-sized projects under construction was 663 by the end of the year, 241 fewer than in 1980.

Investment orientation was readjusted in 1981. Of the total investment in capital construction, investment for productive use was 25,200 million yuan, and the proportion dropped from 66.3 per cent in 1980 to 58.9 per cent. The investment in non-productive construction to meet the needs of the people's material and cultural life was 17,600 million yuan, the proportion rising from 33.7 per cent in 1980 to 41.1 per cent, of which investment in housing construction went up from 20 per cent in 1980 to 25.5 per cent. Investment in construction of light and textile industries was 4,260 million yuan, the proportion rising from 9.1 per cent in 1980 to 10 per cent.

The 1981 investment in capital construction covered by the national budget was basically brought under control. But investment not covered by the national budget exceeded the plan to a fairly large extent, and the problem of blind and duplicate construction was not eliminated.

Efforts were made to intensify geological surveys of energy resources, non-ferrous and precious metals and non-metallic minerals, hydrogeological surveys and regional geological surveys of mineral resources. The service fields of geological work were expanded step by step. A number of oil and gas fields and

metallic and non-metallic mineral-bearing areas were discovered. General seismic surveys were completed in part of the South China Sea and south Yellow Sea areas. A number of exploratory oil wells in the Bohai Sea and the Beibu Gulf yielded oil, showing good prospects. Through the first exploratory oil well in a general survey of the East China Sea, high pressure natural gas zones and oil-bearing sandstones were discovered. Newly verified reserves of 12 major minerals, including oil, coal, iron, copper, gold and phosphorus, met or topped state targets. Verified deposits of iron ore increased by 1,040 million tons, and coal by 10,310 million tons. Additional reserves were verified for 57 kinds of minerals, including nickel, tungsten, molybdenum, mercury, platinum, silver, heavy rare-earths, blue asbestos, diamonds, kaolin, clay for making ceramics, limestone for making cement, and marble and stones for building materials. Total drilling footage for geological prospecting was 8,843,000 metres. But geological work still could not meet the requirements of the modernization programme, and the management of geological prospecting should be improved.

4. TRANSPORT, POSTS AND TELECOMMUNICATIONS

At the end of 1981, China's total railway operating mileage reached 50,000 kilometres; total mileage of highways was 897,000 kilometres, an increase of 9,000 kilometres over 1980; total civil aviation route mileage, including sections repeated in different routes, reached 348,000 kilometres, 37,000 kilometres more than 1980; and total mileage of inland river navigation was 109,000 kilometres.

Total freight volume handled by various means of transportation reached 1,214,300 million ton-kilometres, up one per cent over 1980. Of this, the volume of railway freight transport was 571,200 million ton-kilometres, 0.1 per cent lower than the previous year; the volume of waterway cargo transport

was 515,000 million ton-kilometres, an increase of 1.9 per cent; the volume of road freight transport was 78,000 million ton-kilometres, an increase of 2.1 per cent; the volume of air freight was 170 million ton-kilometres, an increase of 21.4 per cent; the volume of oil and gas carried through pipelines was 49,900 million ton-kilometres, an increase of 1.6 per cent. The volume of cargo handled at major sea ports was 219.31 million tons, an increase of 0.9 per cent.

The volume of passenger transportation by all means reached 250,000 million person-kilometres, a 9.6 per cent increase over 1980. Railways accounted for 147,300 million person-kilometres, an increase of 6.5 per cent; waterways, 13,800 million person-kilometres, a 7 per cent increase; roads, 83,900 million person-kilometres, a 15.1 per cent increase; air, 5,000 million person-kilometres, up 25 per cent.

Post and telecommunications transactions for the whole country totalled 1,952 million yuan in terms of 1980 constant prices, an increase of 5.1 per cent over 1980. There was a 2.3 per cent increase for letters, a 10.3 per cent increase for the distribution of newspapers and magazines, a 9.4 per cent increase for telegrams and a 3 per cent increase for long-distance calls. There was also a considerable increase in international correspondence.

Fuel consumption throughout the country by steam and diesel locomotives per 10,000 ton-kilometres decreased 1.4 per cent and 2.6 per cent respectively, compared with 1980.

Transport and communications departments improved their passenger service and the railways added 64 round-trip runs to their passenger train schedule in 1981. At the same time, new railways such as those between Beijing and Tongliao and between Zhicheng and Liuzhou as well as the Jinan transport and communications hub were used to divert the flow of freight, relieving the pressure on the Beijing-Shanhaiguan, Beijing-Guangzhou, Tianjin-Pukou (Nanjing) and other trunk railways. Railway transportation of coal was better organized and coal from Shanxi Province to other places reached 81.5

million tons, an increase of 12.7 per cent over 1980. At present, the situation in railway transport and main sea ports is still tight and there has not been a fundamental change in the wastefulness arising from a lack of unified management in road transport.

5. DOMESTIC TRADE

The total value of commodities purchased by state-owned commercial departments reached 246,900 million yuan in 1981, topping the previous year by 9.1 per cent. This included 76,470 million yuan worth of farm produce and sideline products, an increase of 13 per cent (or 6.7 per cent if the rise of purchasing prices is excluded), and 168,510 million yuan worth of manufactured goods, an increase of 7.5 per cent over 1980. Purchases of most of the major manufactured goods and farm produce surpassed those of 1980. Among them, the purchase of grain rose by 10.8 per cent, edible oil 43.5 per cent, cotton 10.1 per cent, tobacco 78.7 per cent, jute and ambary hemp 12.1 per cent, sugar 14.8 per cent, cloth 2.8 per cent, knitted underwear 17.4 per cent, and bicycles, radios, sewing machines, wrist watches, television sets and cassette recorders 23 to 90 per cent. But purchases by state-owned commercial departments of hogs and eggs declined by 6.7 per cent and 7.6 per cent. This was because policies on pig raising were not carried out well in some places, eggs were not purchased in good time and the amount of pork and eggs consumed by the peasants themselves and sold by them on the rural market all increased.

Total value of retail sales was 235,000 million yuan, a 9.8 per cent increase over 1980, or a 7.2 per cent increase if the rise in retail prices is excluded. Compared with the 1980 retail sales of main consumer goods, the sale of grain went up 11.1 per cent, edible oil 36.9 per cent, pork 1 per cent, sugar 8.7 per cent, cloth 4.2 per cent, knitted underwear 11.3 per cent, woollen fabrics 19.5 per cent, radios 13 per cent, wrist watches

14.1 per cent, bicycles 33.4 per cent, sewing machines 39.3 per cent, cassette recorders 42.2 per cent and television sets 74.5 per cent.

By the end of 1981, state-owned commercial departments had 10.8 per cent more goods in stock than at the end of 1980.

Supplies for the domestic market in 1981 continued to increase, but still could not keep pace with the growth of social purchasing power. Some famous brand quality consumer goods still fell short of the demand and there was a shortage in the supply of building materials for rural areas. Furthermore, some varieties and specifications were not popular with customers and high-priced products of inferior quality found no ready market and were overstocked.

The government again raised the state purchasing prices of some farm produce in 1981, including soybeans, tobacco and vegetables. In addition, more farm produce was purchased at negotiated prices and at prices for the surplus above purchase quota. As a result, the total purchasing price index for farm produce and sideline products went up 5.9 per cent over the previous year.

Following the raising of the price of cigarettes and alcoholic drinks in November 1981, there was a considerable increase in the price of a number of commodities and, as a result, the overall level of retail prices in December was 4.2 per cent over the same period of 1980. Calculated according to the average prices for the year, the overall level of retail prices (including state listed prices, negotiated prices and prices on the rural market) was 2.4 per cent over 1980. There was a 2.7 per cent increase in cities and a 2.1 per cent increase in rural areas; a 2.6 per cent increase in consumer goods retail prices and a 1.7 per cent increase in the retail prices of the means of production for rural use.

As for retail price fluctuations of consumer goods, the price of food as a whole rose 3.7 per cent (4.1 per cent for non-staple foodstuffs, including a 10.6 per cent increase for vegetable prices), daily necessities 1.3 per cent, commodities for

cultural and recreational activities 0.4 per cent, pharmaceuticals 0.2 per cent and fuel 0.6 per cent. But the price of clothing dropped 0.4 per cent.

The rise in retail prices increased the expenditures of the consumer. In addition, some enterprises sold shoddy goods for quality goods, decreased quantities at original prices or otherwise raised prices in disguised forms. This also increased the burden on the consumer.

6. FOREIGN TRADE, TOURISM

Customs statistics give the 1981 total value of imports and exports as 73,530 million yuan, a 29 per cent increase over the 57,000 million yuan in 1980, or an 11 per cent rise if price fluctuations are excluded. The total export value was 36,760 million yuan, a 35.5 per cent increase over the 27,120 million yuan of the previous year, or an 18 per cent increase if price fluctuations are excluded. Total import value was 36,770 million yuan, a 23.1 per cent increase over the 29,880 million yuan in 1980, or a 5 per cent increase if price fluctuations are excluded. The value of imports was 10 million yuan over that of exports.

The proportion of manufactured goods (including products of the machinery, light and textile, chemical and metal industries) exported rose to 53.4 per cent from 49.7 per cent in 1980; and the proportion of primary products (such as farm produce, food, minerals and raw materials for light and textile industries) dropped from 50.3 per cent in 1980 to 46.6 per cent. Of the imported commodities, the proportion of manufactured goods fell from 65.1 per cent in 1980 to 63.4 per cent and the proportion of primary products rose from 34.9 per cent in 1980 to 36.6 per cent.

The total number of foreigners, overseas Chinese and Chinese compatriots from Hongkong and Macao coming on tours, visits, and for trade, sports, scientific and cultural ex-

changes reached 7,767,000, a 36.2 per cent increase over the previous year. Included were 675,000 foreign tourists, a 27.6 per cent rise over 1980. Annual foreign exchange income was 1,380 million yuan Renminbi, a 49.7 per cent increase over 1980.

7. SCIENCE, TECHNOLOGY, EDUCATION AND CULTURE

In 1981, there were 5,714,000 scientists and technicians of natural sciences working in state-owned units, 418,000 more than in 1980. The number of major research results in science and technology came to 3,100 items, including 120 creations and inventions approved by the state.

Schools at all levels continued to carry out the principle of readjustment. Compared with the previous year, the numbers of students in institutions of higher learning, agricultural middle schools, secondary vocational schools and institutions of secondary education for workers and peasants showed some increases, while in other types of schools the number of students was reduced. Enrolment in institutions of higher learning was 1.28 million, or 136,000 more than the previous year; in secondary technical schools, 1,069,000, or 174,000 less; in regular secondary schools, 48,596,000, representing a drop of 6,485,000; in agricultural middle schools and secondary vocational schools, 481,000, an addition of 27,000; in technical schools, 670,000, a decline of 10,000; in primary schools, 143,330,000, a drop of 2,940,000; in kindergartens, 10,562,000, a drop of 946,000. Enrolment in institutions of higher learning for workers and peasants (including TV colleges, factory-run colleges, spare-time colleges and correspondence schools) was 1,346,000, or 208,000 less than the previous year. Enrolment in secondary schools for workers and peasants (including technical schools for workers, staff members and peasants, and spare-time secondary schools) was 8,207,000, representing a rise of 160,000.

Cultural undertakings including literature, drama, films, ballad-singing, music, dance and the fine arts continued to develop, with a number of good works that were particularly popular with the public. One hundred and five feature films were produced in 1981, an addition of 23 over 1980, to make it the best year in film production since the founding of New China. A total of 143 new full-length films of all kinds were distributed, 27 more than in 1980. The number of film projection units came to 130,000; performing art troupes, 3,483; cultural centres, 2,893; public libraries, 1,787; and museums, 383. There were 114 radio stations throughout the country, 482 transmitting and relay stations, 42 TV centres and 265 TV transmitting and relay stations, each with a capacity of above 1,000 watts. A total of 14,070 million copies of national and provincial newspapers, 1,460 million copies of magazines of all kinds and 5,580 million copies of books and pictures were published in 1981.

The major problems in the fields of science, technology, education and culture are that not enough effort was made to popularize research results in science and technology, cultural facilities were insufficient and the specialties offered by institutions of higher learning were not balanced.

8. PUBLIC HEALTH AND SPORTS

New progress was made in the area of public health. The total number of hospital beds in the country reached 2,017,000, an increase of 1.8 per cent over the previous year. The number of professional health workers totalled 3,011,000, a 7.6 per cent increase over the previous year. This included 1,244,000 registered doctors (290,000 doctors of traditional Chinese medicine, 2,000 senior doctors skilled in both traditional Chinese and Western medicine, 516,000 registered doctors of Western medicine, 436,000 assistant doctors of Western medicine), 7.9 per cent more than in the previous year; the number of

registered nurses and nurses was 525,000, an increase of 12.8 per cent over the previous year.

The patriotic health campaign made new achievements. Work was done to prevent and treat snail fever, endemic goiter, kaschin-beck disease and other parasitic and endemic diseases. The incidence of such diseases dropped to a certain extent.

Great advances were made in sports accompanied by new development in mass participation athletics. A total of 25 world championships were won in 1981, the best year in the annals of China's sports. Chinese athletes broke eight world records and 124 national records. A total of 23,000 sports meets were held at the county level and above. As many as 10 million people were qualified according to the "state standards for physical training."

9. PEOPLE'S LIVELIHOOD

The year 1981 saw a continued improvement in the people's living standards both in the cities and in the countryside. A sample survey of 18,529 peasant households in 568 counties of 28 provinces, municipalities and autonomous regions showed an average annual per-capita income of 223 yuan (including income from farming and sideline production and from redistribution), a 16.8 per cent rise over that of the previous year which was 191 yuan.

In 1981, a total of 8.2 million people were given jobs, including young people waiting for jobs in cities and towns, other categories of people and the year's graduates from colleges and secondary technical schools who are covered by the state job assignment programme. By the end of the year, the number of workers and staff members in state-run and urban collective units came to 109.4 million, this being 4.96 million more than it was a year before. Of these, 83.72 million were in state-run establishments, 3.53 million more than the

previous year, and 25.68 million were in collective establishments in cities and towns, an increase of 1.43 million. In addition, individual workers in cities and towns reached 1.13 million in number, 320,000 more than the previous year.

Annual wages of workers and staff members throughout the country totalled 82,000 million yuan, a rise of 6.1 per cent over 1980. The total for state-employed workers was 66,000 million yuan, 5.2 per cent more than in 1980, and for collectively employed workers in cities and towns, 16,000 million yuan, an increase of 10.4 per cent.

The average annual money wage was 772 yuan (812 yuan for state-employed workers and 642 for collectively employed workers in cities and towns), 1.3 per cent more than in the previous year. The slight increase in the average money wages was due mainly to the big influx of new workers. With more people employed, there was a bigger increase in the average income per person in a worker's or staff member's family. According to a sample survey of 8,715 households in 46 cities of 28 provinces, municipalities and autonomous regions, the average income, that could be spent as living expenses in 1981, was 463 yuan per capita, 19 yuan more than in 1980, an increase of 4.3 per cent. Deducting the 2.5 per cent rise in the cost-of-living index from this, average real income per capita rose 1.8 per cent.

The total amount of bank savings in urban and rural areas was 52,400 million yuan by the end of 1981, or 31 per cent more than at the end of the previous year.

Housing projects completed by state-owned and collective units in cities and towns in 1981 totalled 97 million square metres, showing a 5.5 per cent increase over the previous year's, 91.9 million square metres. Houses constructed by rural commune members comprised about 600 million square metres, an increase of about 20 per cent over the 1980 figure of 500 million square metres.

The problems for people's living standard were: Life was fairly difficult for peasants in some of the disaster-stricken

areas; housing for part of the urban dwellers was still fairly crowded; the price rises affected the living standards of part of the workers and staff members who had no or little bonuses. Some places extended at will the scope of agricultural produce which by policy could be sold at negotiated or above-quota prices, and some units issued bonuses and allowances indiscriminately. All these pushed prices up, which in turn increased the burden on the consumer.

10. POPULATION

The population by the end of 1981 was 996.22 million, 13.67 million more than the previous year's figure of 982.55 million, showing an increase of 1.4 per cent.

COMMUNIQUE ON THE FULFILMENT OF CHINA'S 1982 NATIONAL ECONOMIC PLAN

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The people of all nationalities in China, under the leadership of the Chinese Communist Party and the people's government, continued to implement the policy of readjustment, restructuring, consolidation and improvement in 1982 and achieved new progress in economic and social development through a year's hard efforts. Total product of society* reached 989.4 billion yuan, up 9 per cent from 1981. Total output value of industry and agriculture was 829.1 billion yuan, 8.7 per cent higher than in 1981. The preliminary estimate of national income is 424.7 billion yuan, up 7.4 per cent from 1981. Growth in production brought about a brisk market and prices were basically stable. State revenue and expenditure were in basic balance. The living standards of the people continued to improve. New progress was made in building spiritual civilization. The major problems in the development of the national econo-

* Total product of society is the sum of the total output value of industry, agriculture, the building trade, communications, transport and commerce, including the supply and marketing of materials and equipment and public catering trade. National income is the sum of the net output value of the five above-mentioned material producing departments. All figures for total product of society, total industrial output value, total agricultural output value and national income cited in the communique are calculated in terms of 1982 prices and the rate of growth over the previous year is calculated with the comparable prices.

my were an excessive increase in investment in fixed assets and use of funds was not well concentrated; there was no marked improvement in economic results in production, construction or circulation, and many places suffered shortages in energy supply and transportation problems.

1. AGRICULTURE

The rural areas continued in 1982 to institute and improve the job responsibility system which links output with economic benefits, thus continuing to mobilize the initiative of the vast number of peasants. The weather in most places was fairly good. These factors contributed to a good harvest. Annual total output value of agriculture was 278.5 billion yuan, up 11 per cent from 1981, far exceeding the planned target of 4 per cent. After deducting the industrial output value of 30.4 billion yuan for enterprises run by production brigades and teams, the total value of agricultural output was 248.1 billion yuan, up 11.2 per cent from 1981.

Of this, farm crops brought 174.7 billion yuan, 10.1 per cent over 1981. The corresponding figure for forestry was 11 billion yuan, up 8.5 per cent; for animal husbandry, 45.6 billion yuan, up 13.2 per cent; for fishery, 5.1 billion yuan, up 12.1 per cent; and for sideline production, 42.1 billion yuan, up 12.8 per cent.

The output of nearly all major farm products hit all-time highs, reaching or surpassing planned figures. Total grain output was 353.43 million tons, topping the state plan by 6 per cent, or 8.7 per cent more than the previous year and 6.4 per cent over the previous peak figure of 332.12 million tons in 1979. Total output of cotton was 3,598,000 tons, topping the state plan by 19.9 per cent, or 21.3 per cent more than in 1981. Total output of oil-bearing seeds was 11,817,000 tons, topping the state plan by 28.6 per cent, or 15.8 per cent over 1981. Among grain and oil-bearing seeds, output of soybeans and sesame decreased somewhat due to natural disasters in major

producing areas. The output of jute and ambary hemp was also less than in 1981 because the acreage of these crops was cut due to overstocking.

Output of major farm products follows:

| | 1982 | percentage increase over 1981 |
|---|------------------|-------------------------------------|
| Grain | 353,430,000 tons | 8.7 |
| Of which: | | |
| Paddy | 161,240,000 tons | 12.0 |
| Wheat | 68,420,000 tons | 14.7 |
| Tubers (counted on the basis of 5 kilogrammes of tubers equivalent to 1 kilogramme of grain) | 26,680,000 tons | 2.7 |
| Soybeans | 9,030,000 tons | -3.2 |
| Cotton | 3,598,000 tons | 21.3 |
| Oil-bearing seeds | 11,817,000 tons | 15.8 |
| Of which: | | |
| Peanuts | 3,916,000 tons | 2.4 |
| Rapeseed | 5,656,000 tons | 39.2 |
| Sesame | 342,000 tons | -32.9 |
| Sugar-bearing crops | 43,594,000 tons | 21.0 |
| Sugar cane | 36,882,000 tons | 24.3 |
| Beetroot | 6,712,000 tons | 5.5 |
| Jute, ambary hemp | 1,060,000 tons | -15.9 |
| Silkworm cocoons | 314,000 tons | 1.0 |
| Tea | 397,000 tons | 16.0 |

The nationwide afforestation campaign developed vigorously. In all, 4.5 million hectares were afforested in 1982, a 9.4 per cent increase over 1981. The survival rate of saplings improved. The output of most forestry products showed increases to varying degrees. Among them, the output of rubber increased 19.5 per cent and of chestnuts rose 7.2 per cent. The output of tung oil tree seeds and oil tea seeds dropped. In some areas, indiscriminate felling of trees still continued.

Livestock industry also thrived. Increases to varying degrees were registered in the number of hogs and large animals (cattle, horses, mules and donkeys) in stock by the end of the year. However, the number of sheep in stock at the year's end dropped.

Output of major animal by-products and the number of livestock at the end of the year follows:

| | 1982 | percentage increase over 1981 |
|---------------------------------|-----------------|-------------------------------------|
| Output of pork, beef and mutton | 13,508,000 tons | 7.1 |
| Of which: Pork | 12,718,000 tons | 7.0 |
| Beef | 266,000 tons | 6.9 |
| Mutton | 524,000 tons | 10.1 |
| Milk | 1,618,000 tons | 25.4 |
| Sheep wool and goat hair | 215,000 tons | 6.4 |
| Of which: Sheep wool | 202,000 tons | 6.8 |

| | 1982 | percentage increase over 1981 |
|--------------------------------------|------------------|-------------------------------------|
| Hogs slaughtered | 200,630,000 head | 2.9 |
| Hogs in stock at the year's end | 300,780,000 head | 2.4 |
| Large animals at the year's end | 101,130,000 head | 3.6 |
| Of which: Cattle | 76,070,000 head | 3.8 |
| Sheep and goats at the year's end | 181,790,000 head | -3.2 |

There was a fairly rapid growth in fishery production. The output of aquatic products in 1982 was 5,155,000 tons, topping the state plan by 18.8 per cent, or 11.9 per cent more than in 1981. The total catch of marine products increased 11.2 per cent while fresh-water products rose 13.6 per cent.

State farms built on reclaimed wasteland reported increases for output of most major farm products. Grain output rose 12 per cent; cotton, 19 per cent; sugar-bearing crops, 28 per cent; and milk, 12 per cent. But the output of oil-bearing seeds and pork, beef and mutton dropped. State farms produced profits in excess of 700 million yuan.

The number of farm machines in use continued to increase, especially of economical and practical small and medium-sized farm machines. Total power capacity of farm machines reached 226 million horsepower by the end of 1982, 6 per cent more than at the end of 1981. The number of medium-sized and large tractors was 812,000, up 2.5 per cent. The number of small-capacity and hand tractors was 2.29 million, up 12.3 per cent. The corresponding figure for heavy-duty trucks was 206,000, up 17.7 per cent; for irrigation and

drainage power equipment, 76,700,000 horsepower, up 2.3 per cent. A total of 15,130,000 tons of chemical fertilizer was applied during the year, an increase of 13.4 per cent. Of this figure, a 10.8 per cent increase was registered for nitrogenous fertilizer, 16.6 per cent for phosphate fertilizer, 39.6 per cent for potash and 21 per cent for compound fertilizers. The total consumption of electricity in the rural areas was 39.7 billion kilowatthours, an increase of 7.3 per cent over 1981.

Forecasts of bad weather by the meteorological departments were fairly accurate and prompt. Specialized weather services were improved, contributing to the efforts by the agricultural and other departments to take advantage of favourable weather conditions and prevent losses from natural disasters.

2. INDUSTRY

Industrial production continued to rise in the course of readjustment in 1982. Total industrial output value was 550.6 billion yuan, an increase of 7.7 per cent over 1981, topping the planned annual growth of 4 per cent. Output value of industry, including rural industry run by production brigades and teams, was 7.8 per cent over 1981.

The output of 91 of the 100 major industrial products met or topped the state plans. They included cotton yarn, cloth, sugar, machine-made paper and paper boards, bicycles, sewing machines, television sets, coal, crude oil, electricity, steel, rolled steel, cement, plate glass, sulphuric acid, soda ash, caustic soda, chemical fertilizer, power generating equipment, motor vehicles, hand tractors and locomotives. Nine products failed to meet planned quotas, including beer, household washing machines and tractors.

Light industry, which grew at an average annual rate of 14 per cent between 1979 and 1981, continued to rise in 1982. Total output value of light industry was 276.6 billion yuan, 5.7

per cent over 1981. Output value of the food processing industry increased 9.5 per cent; textile industry, 1.3 per cent since the production of chemical fabrics was restricted; and the output of daily necessities, 7.2 per cent. Many light and textile industrial enterprises paid attention to organizing production according to the needs of society. Quality of products improved and variety increased.

Output of major light industrial products follows:

| | 1982 | percentage increase over 1981 |
|---------------------------------------|--|-------------------------------------|
| Cotton yarn | 3,354,000 tons | 5.8 |
| Cloth | 15.35 billion metres (14.92 billion square metres) | 7.6 (9.4) |
| Chemical fibres | 517,000 tons | -1.9 |
| Of which: Synthetic fibres | 375,000 tons | -2.6 |
| Woollen piece goods | 127 million metres | 12.4 |
| Silk | 37,100 tons | -0.8 |
| Silk textiles | 914 million metres | 9.5 |
| Gunny sacks | 500 million | 16.6 |
| Machine-made paper and paperboards | 5.89 million tons | 9.1 |
| Sugar | 3,384,000 tons | 6.9 |
| Beer | 1.17 million tons | 28.6 |
| Salt | 16.38 million tons | -10.6 |
| Chemical pharmaceuticals | 42,200 tons | 13.1 |

| | 1982 | percentage increase over 1981 |
|-----------------------------|---------------|-------------------------------------|
| Detergents | 569,000 tons | 19.0 |
| Bicycles | 24.2 million | 38.0 |
| Sewing machines | 12.86 million | 23.8 |
| Watches | 33.01 million | 14.9 |
| Television sets | 5.92 million | 9.8 |
| Of which: Colour TV sets | 288,000 | 89.5 |
| Radio sets | 17.24 million | -57.5 |
| Cassette recorders | 3,471,000 | 124.5 |
| Cameras | 742,000 | 19.1 |
| Household washing machines | 2,533,000 | 97.7 |
| Household refrigerators | 99,900 | 79.7 |
| Light bulbs | 1.07 billion | 10.3 |

Heavy industry total output value in 1982 was 274 billion yuan, 9.9 per cent over 1981. The upward turn in heavy industry production after two years of stagnation and decline was caused mainly by increased investment in fixed assets and a greater demand for the means of production in agriculture. Compared with 1981, output value of the machine-building industry increased 15.2 per cent, that of the building materials industry rose 14.1 per cent, and of chemical fertilizer and insecticides, 8.4 per cent. Thanks to the restructuring of the previous two years, heavy industry was able to increase the

scope of its services, provide more energy-saving and export products and to serve the needs of agriculture and light industry.

Primary energy produced in 1982 was equivalent to 668 million tons of standard coal, 5.7 per cent higher than the 1981 figure. Despite the increase, energy production still could not meet the needs of the developing national economy.

Output of major heavy industrial products follows:

| | 1982 | percentage increase over 1981 |
|-------------------------------|-----------------------------------|-------------------------------------|
| Coal | 666 million tons | 7.1 |
| Crude oil | 102.12 million tons | 0.9 |
| Natural gas | 11,930 million cubic metres | -6.4 |
| Electricity | 327.7 billion kwh | 5.9 |
| Of which: Hydroelectricity | 74.4 billion kwh | 13.5 |
| Pig iron | 35.51 million tons | 3.9 |
| Steel | 37.16 million tons | 4.4 |
| Rolled steel | 29.02 million tons | 8.7 |
| Coke (machine-made) | 33.11 million tons | 4.4 |
| Timber | 50.41 million cubic metres | 2.0 |
| Cement | 95.2 million tons | 14.8 |
| Plate glass | 35.46 million stand- ard cases | 15.7 |

| | 1982 | percentage increase over 1981 |
|-------------------------------------|-------------------|-------------------------------------|
| Sulphuric acid | 8.17 million tons | 4.6 |
| Soda ash | 1,735,000 tons | 5.0 |
| Caustic soda | 2,073,000 tons | 7.8 |
| Chemical fertilizer | 12,781,000 tons | 3.2 |
| Of which: Nitrogenous fertilizer | 10,219,000 tons | 3.7 |
| Phosphate | 2,537,000 tons | 1.2 |
| Potash | 25,000 tons | -3.8 |
| Chemical insecticides | 457,000 tons | -5.6 |
| Ethylene | 560,000 tons | 12.0 |
| Plastics | 1,003,000 tons | 9.5 |
| Calcium carbide | 1.67 million tons | 10.6 |
| Outer rubber tyres | 8.64 million | 18.5 |
| Mining equipment | 158,000 tons | 37.4 |
| Power generating equip- ment | 1,645,000 kw | 17.9 |
| Machine tools | 100,000 | -2.9 |
| Motor vehicles | 196,000 | 11.4 |
| Tractors | 40,000 | -24.5 |
| Hand tractors | 298,000 | 49.7 |

| | 1982 | percentage increase over 1981 |
|---|------------------|-------------------------------------|
| Internal combustion engines (sold as commodities) | 22.96 million hp | 14.6 |
| Locomotives | 486 | 22.1 |
| Railway passenger coaches | 1,153 | -0.5 |
| Railway freight cars | 10,561 | 20.3 |
| Steel ships for civilian use | 1,025,000 tons | 11.9 |

As a whole industrial economic results were relatively poor although improvements were made in some areas. Per-capita productivity for state-owned enterprises designated to undertake independent accounting rose 2.3 per cent over 1981. The turnover period for working funds averaged 2.4 days less. Twenty-two of the 67 major quality indices for industrial products rose, and 30 maintained the 1981 level, while the remaining 15 dipped. Forty-three of the 99 major indices for unit consumption of materials fell, 26 maintained the 1981 level and the remaining 30 rose. Forty-five of these indices are for unit consumption of energy, of which 25 dropped, 7 maintained the 1981 level and the 13 others rose. Total cost of comparable products dropped only 0.04 per cent, far from meeting the originally scheduled target of 2 to 3 per cent. Turnover in the forms of profit and taxes for each 100 yuan of industrial output value dropped from 25.5 yuan to 24.6 yuan. Some enterprises suffered losses, which totalled 4.2 billion yuan. Warehouse overstocking of some light and textile industrial goods increased. Many enterprises

continued to put one-sided emphasis on output value to the neglect of economic results.

3. INVESTMENT IN FIXED ASSETS

Total investment in fixed assets of state-owned units came to 84.5 billion yuan in 1982, and of urban and rural collectively owned units 17.4 billion yuan. Individual housing construction investment was 18.1 billion yuan.

Of the total investment in fixed assets of state-owned units, investment in capital construction accounted for 55.5 billion yuan, 11.2 billion yuan more than in 1981, a 25.4 per cent increase. This outstripped the readjusted planned figure of 44.5 billion yuan by 11 billion yuan. Of this, the investment in capital construction from funds raised by localities topped the planned figure by 5.2 billion yuan, and that from domestic loans by 3.7 billion yuan. Investment covered by the state budget was 27.7 billion yuan, accounting for 49.8 per cent of all investment in capital construction, compared with 56.8 per cent for 1981.

Of the investment in capital construction, 54.5 per cent, or 30.3 billion yuan, was for productive projects, and 45.5 per cent, or 25.2 billion yuan, for housing, schools, hospitals, urban public facilities and other non-productive projects. Investment in housing amounted to 14.1 billion yuan, 25.4 per cent of the total.

This capital construction investment helped add the following major industrial capacities: 8.2 million tons of coal, 3.17 million tons of oil, 2.94 million kilowatts of power generating capacities, 510,000 cotton spindles, 29,000 tons of chemical fibres, 346,000 tons of sugar, 306,000 tons of salt, 59,000 tons of machine-made paper and paperboard, 3.1 million tons of iron ore, 180,000 tons of steel, 725,000 tons of synthetic ammonia, 653,000 tons of chemical fertilizer, 333,000 cubic metres of logs, 2.37 million tons of cement, 1.2 million stand-

ard cases of plate glass, 1.68 million kinescopes, and 751 kilometres of highway. Annual cargo handling capacity added at ports was 21.82 million tons.

A total of 116 large and medium-sized projects and 145 single items of large and medium-sized projects were completed and put into operation.

Completed energy projects that were put into operation included the Wujiangdu Hydroelectric Power Station in Guizhou with a combined generating capacity of 630,000 kilowatts, and the third stage project of the Suixi Power Plant in Huaibei, Anhui Province, with a generating capacity of 400,000 kilowatts. Single items that were completed and put into operation included three power generating units each with a capacity of 125,000 kilowatts at the Gezhouba Hydroelectric Power Station in Hubei Province, the No. 1 power generating unit of 350,000 kilowatts at the Baoshan General Iron and Steel Plant in Shanghai, the No. 1 power generating unit of 200,000 kilowatts at the Qinling Power Plant in Shaanxi Province, the Gencun inclined shaft with an annual production capacity of 1.2 million tons at the Yima Coalfield in Henan Province, as well as three other coal projects each with a designed annual production capacity of 900,000 tons — the Taozhuang No. 2 vertical shaft at the Handan Coal Mining Area, the Xian-dewang inclined shaft at the Xingtai Coal Mining Area in Hebei Province, and Shihao shaft in the Songzao Coal Mining Area in Sichuan Province.

Complete projects and single items undertaken by transport and communications departments that went into operation included: electrification of the 116-kilometre railway from Yangquan to the northern station of Taiyuan, 258 kilometres of double-track sections of eight railways including Jinan-Qingdao, Longhai, Beijing-Baotou and Shijiazhuang-Dezhou, and an added annual capacity of 20 million tons of ore at a deep-water wharf at Beilun Port, Zhejiang Province.

Complete imported plants that went into operation included: the Pingdingshan Cord Fabric Plant in Henan designed

to produce 13,000 tons of nylon cord fabrics a year, the Anqing Petrochemical Works in Anhui and the Guangzhou General Petrochemical Works each designed to produce an annual average of 240,000 tons of synthetic ammonia and 420,000 tons of urea, and a colour kinescope factory with a designed annual capacity of 960,000 tubes in Xianyang, Shaanxi Province.

Financial resources for capital construction were not used in a concentrated way. Control of funds not covered by the national budget was inadequate and construction funds for some key departments were not guaranteed. Investment in agriculture was 3.4 billion yuan, 500 million yuan more than the 1981 figure, but the proportion of such investment in the nation's total capital construction investment dropped from 6.6 per cent to 6.1 per cent. Investment in the energy industry was 10.1 billion yuan, one billion yuan more than in 1981, but the proportion dropped from 20.6 per cent to 18.3 per cent. Investment in transport and posts and telecommunications was 5.7 billion yuan, 1.7 billion yuan more, and the proportion rose from 9.1 per cent to 10.3 per cent. Investment in education was 2.5 billion yuan, 300 million yuan more, but the proportion dropped from 5 per cent to 4.5 per cent. Investment in scientific research was one billion yuan, 100 million yuan more, but the proportion dropped from 2.1 per cent to 1.8 per cent. Investment in heavy industry (excluding the energy industry), commerce and foreign trade registered varying increases.

The scale of capital construction was over-extended and investment excessive, and there were cases of projects not covered by the national budget that were undertaken at the expense of projects covered. A total of 71,000 projects were under construction, 11,000 more than the previous year. Of this, 34,000 were newly started projects, including some duplicates. Of the 80 large and medium-sized projects that were to be completed and put into operation in 1982, 33 remained unfinished at the end of the year. Twenty-four of the 80 single items planned for completion and operation in 1982 were not

completed on schedule. Thus capital construction investment yielded less than satisfactory results. Fixed assets worth 41.3 billion yuan were added in 1982, but only 74.4 per cent of the assets went into operation, as against 86.6 per cent in 1981. The year 1982 saw the completion of a combined housing floor space of 143.57 million square metres, and the proportion of housing completed to the total under construction dropped to 50.5 per cent from 52 per cent in 1981.

Efforts were stepped up to revamp existing enterprises. A total of 29 billion yuan was invested for renewal of equipment, technical transformation and other measures in state-owned units, 6.5 billion yuan more than in 1981, a 29 per cent increase. As regards break-down figures for investment by major economic departments, light industry accounted for 22.1 per cent, compared to 23.1 per cent in 1981; the energy industry rose from 23.9 per cent to 24.7 per cent; other branches of heavy industry dropped from 26.2 per cent to 24.6 per cent; transport, posts and telecommunications dropped from 11.2 per cent to 10.9 per cent; and commerce and foreign trade rose from 3.8 per cent to 4.7 per cent.

A total of 90,000 projects involving renewal of equipment and other technical transformation measures each requiring a total investment of no less than 50,000 yuan were undertaken in 1982, 24,000 more than in 1981. Forty-eight thousand were completed, 13,000 more than the previous year. These projects played a positive role in increasing production, practising economy, upgrading techniques and improving transportation. Nevertheless, a fairly large part of this investment was not used for technical transformation, quality improvement of products, or conservation of energy and raw materials. Around 40 per cent went for building or expanding projects.

Geological work was intensified in 1982. A number of oil and gas fields and over 300 mineral-bearing areas were discovered and assessed. The known area of oilfields in the eastern regions grew as a result, and progress was made in general surveying and prospecting for oil and gas in the west-

ern regions. Fairly good results were achieved in oil prospecting on the continental shelf in the Beibu Gulf and the Bohai Sea. Newly verified reserves of 14 minerals including coal, petroleum, iron, copper, aluminium, gold, phosphorus and pyrites outstripped the planned figures. Of these, coal amounted to 71.16 billion tons, and iron ore, 1.48 billion tons. New reserves were verified also for 54 other minerals including chromium, tungsten, tin, molybdenum, bismuth, silver, niobium-tantalum, blue asbestos, gypsum, graphite, kaolinite and natural stone building materials. The total drilling footage was 9.3 million metres, exceeding the 1981 figure by 458,000 metres.

4. TRANSPORTATION, POSTS AND TELECOMMUNICATIONS

The total volume of goods transported by all means of transportation was 1,304.9 billion ton-kilometres, up 7.5 per cent from 1981. Of this, the volume of railway freight was 612 billion ton-kilometres, an increase of 7.1 per cent; that of road goods was 94.9 billion ton-kilometres, up 21.7 per cent; that of waterway cargo was 547.7 billion ton-kilometres, up 6.3 per cent; and that of air freight was 200 million ton-kilometres, up 17.6 per cent. The volume of oil and gas carried through pipelines was 50.1 billion ton-kilometres, up 0.4 per cent. The volume of cargo handled at major sea ports was 237.64 million tons, 8.4 per cent more than the previous year.

The volume of passenger travel handled by all means of transportation was 274.4 billion person-kilometres, a 9.8 per cent increase over 1981. Of this, the volume of railway carriage was 157.5 billion person-kilometres, up 6.9 per cent; the volume of road passengers was 96.4 billion person-kilometres, an increase of 14.9 per cent; the volume of waterway passengers was 14.5 billion person-kilometres, up 5.1 per cent; and the volume of passengers by air was 6 billion person-kilometres, a 20 per cent increase.

Posts and telecommunications transactions throughout China amounted to 2.04 billion yuan in 1982, topping 1981 by 4.6 per cent. Letters increased 0.2 per cent; combined circulation of newspapers and magazines, 8.1 per cent; telegrams, 0.8 per cent; and long-distance telephone calls, 6.9 per cent. The number of telephones in urban use increased by 7.9 per cent over that at the end of 1981.

Departments of transportation, posts and telecommunications made real efforts to improve economic results. Per-capita productivity for railway transport enterprises registered a 3.3 per cent increase. The daily volume of freight hauled by locomotives averaged 0.3 per cent more than in 1981. Oil consumption by diesel locomotives per 10,000 ton-kilometres of freight volume dropped by 2.9 per cent. But consumption of coal by steam locomotives per 10,000 ton-kilometres of freight rose 0.7 per cent due to internal readjustments. A 22.1 per cent increase was achieved in the annual profit made by the entire railway system. Per-capita productivity of waterway transportation enterprises under the Ministry of Communications rose 3.8 per cent. The annual volume of cargo carried by ships per ton of loading capacity grew by 4.6 per cent. Time in port for foreign trade shipping was shortened from 10.4 days on the average in 1981 to 8.8 days in 1982. Posts and telecommunications enterprises yielded 31.1 per cent more profit than in 1981.

Railway transportation, cargo-handling capacity at ports and posts and telecommunications still cannot keep pace with the development of the national economy. Serious accidents happened in railway, water and civil air transport, indicating that safety measures were inadequate.

5. DOMESTIC TRADE

The total value of commodities purchased by state-owned commercial departments reached 262.25 billion yuan in 1982,

topping 1981 by 6.2 per cent. This included 85.56 billion yuan of farm and sideline produce, up 11.9 per cent over 1981 (or 9.5 per cent if the rise in prices is excluded), and 174.62 billion yuan worth of manufactured goods, up 3.6 per cent. Purchases of the major commodities surpassed 1981. Among them, the purchases of grain reached 72.085 million tons, a 14 per cent increase; cotton, 3.413 million tons, up 18.9 per cent; edible plant oil, 2.93 million tons, up 10.4 per cent; hogs, up 3.7 per cent; eggs, up 5.3 per cent; aquatic products, up 16.2 per cent; cured tobacco, up 40.8 per cent; sugar, up 10.5 per cent; cloth, up 1.8 per cent; knitted underwear, up 4.4 per cent; sewing machines, up 23.8 per cent; television sets, up 32.7 per cent; watches, up 35.2 per cent; bicycles, up 35.7 per cent; and cassette recorders, up 100 per cent.

The total value of retail sales in 1982 was 257 billion yuan, a 9.4 per cent increase over 1981 (or 7.3 per cent if the rise in retail prices is excluded). Total value of retail sales by state-owned commercial units was 196.86 billion yuan, up 4.7 per cent; the corresponding figure for co-operative commercial units was 41.44 billion yuan, up 21.3 per cent; and that for individual commercial units, 7.46 billion yuan, up 99.5 per cent. The total value of retail sales by peasants to the non-agricultural population was 11.08 billion yuan, topping the 1981 figure by 23.9 per cent. The value of retail sales by state-owned commercial departments accounted for 76.6 per cent of the nation's total, compared to 80 per cent in 1981. The value of retail sales by co-operative units, however, rose from 14.5 per cent to 16.1 per cent; that by individual commercial units, from 1.6 per cent to 2.9 per cent; and that by peasants to the non-agricultural population, from 3.8 per cent to 4.3 per cent.

The volume of retail sales for the majority of the major consumer goods went up in 1982. The increase over 1981 for grain was 10.2 per cent; for edible vegetable oil, 28.4 per cent; for pork, 6 per cent; for eggs, 9.9 per cent; for aquatic products, 13.1 per cent; for sugar, 8.9 per cent; for knitted underwear, 8.3 per cent; for woollen fabrics, 5.9 per cent; for cameras,

17.5 per cent; for radio sets, 17.9 per cent; for television sets, 18.3 per cent; for sewing machines, 23 per cent; for watches, 23.7 per cent; for electric fans, 23.9 per cent; for bicycles, 39.9 per cent; and for cassette recorders, 65.8 per cent. Retail sales of cloth were 1.7 per cent below 1981. By the end of 1982, the state-owned commercial units had 8 per cent more goods in stock than at the end of 1981.

The domestic market had a fairly ample supply of goods and greater variety. But owing to changes in market demand and consumers' demand for greater choice, some high-priced goods of inferior quality and other goods that could not find a ready market were overstocked.

In 1982, market prices remained basically stable. The purchasing prices of farm and sideline produce by and large remained the same as in 1981. But as more farm and sideline produce was purchased at negotiated prices or at higher-than-normal prices for produce purchased beyond state quotas, the total purchasing price index for farm and sideline produce went up 2.2 per cent over 1981. The 1982 overall level of retail prices went up 1.9 per cent. The index for the cost of living of the non-agricultural population rose 2 per cent over 1981. Retail prices of daily consumer goods rose by 2.1 per cent, and the prices of services 1.4 per cent.

In 1982, retail prices rose 2.1 per cent in the cities and 1.7 per cent in the rural areas. Among the retail prices for various consumer goods, the price of foodstuff went up 2.8 per cent (the price for tobacco, alcoholic drinks and tea, up 16.4 per cent); that of goods for cultural and recreational purposes, up 0.2 per cent; pharmaceuticals, up 1.3 per cent; fuel, up 0.8 per cent. But the price of clothing dropped 2.1 per cent and goods of daily use, 1 per cent. There was a 1.9 per cent increase in the retail price of means of farm production. There were still cases of disguised price hikes and of commodity and service prices raised at will.

The cost in commodity circulation of enterprises formerly under the Ministry of Commerce went up 9 per cent in 1982

from 7.8 per cent in 1981. The turnover period for circulating funds in 1982 was 15 days longer than in 1981 and profit decreased 34.2 per cent. The expenses involved in commodity circulation in enterprises under the All-China Federation of Supply and Marketing Co-operatives rose to 10.5 per cent in 1982 from 9.9 per cent in 1981. The turnover period of circulating funds was five days longer and profit decreased 14.2 per cent. This was due to poor management in quite a number of commercial enterprises and the drop in retail price of some manufactured goods.

Sales of most of the means of production under state control rose in 1982. Rolled steel rose 13.3 per cent; coal, 7.4 per cent; caustic soda, 8 per cent; soda ash, 6.4 per cent; timber, 10.9 per cent; and cement, 13.1 per cent. Departments in charge of distributing state-controlled materials and equipment improved economic results. Costs for distributing such materials and equipment dropped to 8.2 per cent of their cost in 1982 from 8.9 per cent in 1981 and the turnover period for circulating funds was 31 days less. But some materials and equipment were overstocked and the problem of slow turnover remains to be solved.

6. FOREIGN TRADE, TOURISM

Customs statistics show that the 1982 total value of imports and exports came to 77.2 billion yuan, a 5 per cent increase over 1981, or a 3.4 per cent increase if price and foreign exchange rate fluctuations are excluded. Total value of exports in 1982 was 41.43 billion yuan, a 12.7 per cent increase over 1981, or a 6.5 per cent increase if price and foreign exchange rate fluctuations are excluded; total value of imports in 1982 came to 35.77 billion yuan, a 2.7 per cent decrease from the 1981 figure, or a 0.3 per cent increase if price and foreign exchange rate fluctuations are excluded. The value of exports was 5.66 billion yuan more than that of imports.

The proportion of manufactured goods exported rose to 55 per cent in 1982 from 53.4 per cent in 1981; and the proportion of primary products dropped to 45 per cent in 1982 from 46.6 per cent in 1981.

The proportion of manufactured goods imported dropped to 60.4 per cent in 1982 from 63.4 per cent in 1981; and the proportion of primary products rose to 39.6 per cent in 1982 from 36.6 per cent in 1981.

A total of 7,924,000 people from 164 countries and regions came to China in 1982 on tours and visits and for trade, sports, scientific and cultural exchanges. There were 764,000 foreigners, a 13.2 per cent increase over 1981; and 7,160,000 overseas Chinese and Chinese compatriots from Hongkong and Macao, up 1 per cent. The foreign exchange income from these sources was valued at 1.57 billion yuan Renminbi, a 14 per cent increase over 1981.

7. SCIENCE, TECHNOLOGY, EDUCATION AND CULTURE

In 1982, 6,264,000 scientists and technicians were working in state-owned units, 9.6 per cent more than in 1981. The number of major research results in science and technology came to 4,100 items, 32 per cent more than in 1981. This included 149 inventions and discoveries approved by the state, a 24 per cent increase over 1981. The national defence scientific research departments successfully conducted tests in launching carrier rockets from submarines. Industrial and transport departments conducted research in manufacture and development of new products, new technologies and techniques. Agricultural departments succeeded in breeding and popularizing a number of good strains of crops. All this illustrated new progress in China's science and technology. Research work in social sciences also made headway and contributed to the socialist modernization.

Institutions of higher learning enrolled 315,000 students in 1982, or 36,000 more than in 1981; 457,000 students graduated from these institutions, 317,000 more than the previous year. These institutions had a total enrolment in 1982 of 1,154,000 students, 125,000 fewer than in 1981. This was because the students who entered college in the spring and autumn of 1978 all completed their four-year courses in 1982. Work was done to improve higher educational programmes for adults (including TV college courses, correspondence schools, evening schools and colleges for workers and peasants). A total of 291,000 new students were enrolled in such institutions in 1982 and 204,000 graduated. These institutions had 644,000 students in 1982, or 108,000 more than in 1981.

Readjustment and restructuring were continued in secondary schools. The level of the teachers and educational quality as a whole improved, but the number of students in some schools decreased. Middle schools, secondary technical schools and apprentice schools had 46,844,000 students, 3.5 million less than in 1981. Agricultural middle schools and vocational middle schools had 704,000 students, 223,000 more than in 1981. The total number of students in all kinds of middle schools was 47,548,000, or 3,277,000 less than in 1981. The major cause of the decline was the curtailment of regular middle schools while secondary vocational and technical education failed to develop fast enough to fill the gap. Some 10,804,000 people were receiving adult secondary education, 2,597,000 more than in 1981. This was because more training courses were arranged for workers and staff members in enterprises.

In 1982, there were 139.72 million pupils in primary schools, 3,608,000 fewer than the previous year. The reduction was due mainly to a drop in the number of school-age children because of birth control. The number of adults receiving primary education was 7,566,000 in 1982, 2.17 million less than in 1981.

New achievements were made in the building of socialist spiritual civilization through cultural undertakings including

literature, the arts, films, the press, radio, television, cultural relics and publications. A number of good works appeared which were well received by the public. One hundred and twelve feature films were produced in 1982, seven more than the previous year. One hundred and fifty-five full-length new films were distributed, 12 more than in 1981. The country had 140,000 cinemas and other film projecting units, 3,460 performing art troupes, 2,925 cultural centres, 1,889 public libraries and 409 museums. There were 118 radio stations throughout the country, 506 transmitting and relay stations, 47 TV centres and 328 TV transmitting and relay stations, each with a capacity above 1,000 watts. A total of 14 billion copies of national and provincial newspapers, 1.51 billion copies of magazines of all kinds and 5.88 billion copies of books and pictures were published in 1982.

8. PUBLIC HEALTH AND SPORTS

New progress was made in public health undertakings after the health departments restructured both urban and rural health organizations. The total number of hospital beds for the country reached 2,054,000 at the end of 1982, an increase of 1.8 per cent compared with the end of 1981. The number of professional health workers totalled 3,143,000, a 4.4 per cent increase. This included 1,307,000 doctors, an increase of 5.1 per cent, and 564,000 senior nurses and nurses, an increase of 7.4 per cent. The patriotic health campaign and prevention and treatment of diseases were improved.

News of victory and important break-throughs kept pouring in from the sports field in 1982. Chinese contestants at the Ninth Asian Games won 61 gold medals and China came first in number of gold medals won and in total score. The Chinese women's volleyball team and sportsmen in gymnastics, diving, table tennis and badminton won honour for the motherland in international competitions. A total of 13 world

championships were won during the year. Chinese sportsmen broke 11 world records and 120 national records. A total of 26,000 sports meets were held at the county level and above. As many as 8,450,000 people met the "state standards for physical training." Mass sports activities were extensively held.

9. PEOPLE'S LIVELIHOOD

1982 saw a continued improvement in the people's living standards in both cities and countryside. A sample survey of 22,775 peasant households in 589 counties of 28 provinces, municipalities and autonomous regions showed an average annual net income per capita of 270 yuan, an increase of 15.2 per cent over the previous year after deducting incomparable factors.* Of those surveyed, the percentage of households with an average 500 yuan of net income per capita rose to 6.7 per cent from 3.2 per cent in the previous year. A sample survey of 9,020 households of workers and staff members in 47 cities of 29 provinces, municipalities and autonomous regions showed an average annual income per capita of 500 yuan which can be used for living expenses, a 7.9 per cent increase over the previous year which was 463 yuan. Deducting the rise in the cost of living index, real income rose by 5.8 per cent.

In 1982, a total of 6,650,000 people were given jobs, including young people waiting for jobs in cities and towns, other categories of people and the year's graduates from colleges, secondary technical schools and apprentice schools who are covered by the state job assignment programme. By the end of the year, the number of workers and staff members in

* In the past, farm produce allotted to commune members by production teams was calculated at low rates for internal distribution. Recently, since most parts of China adopt a contract system with the household as the unit, farm produce turned out by commune members was all calculated at 1982 state purchasing prices. The factor of price fluctuations has been excluded in the above listed rates of growth.

state-run and urban collective units came to 112,810,000, this being 3,410,000 more than at the end of 1981. Of these, 86,300,000 were in state-run establishments, an increase of 2,580,000; 26,510,000 were in collective establishments in cities and towns, an increase of 830,000. The number of individual labourers in cities and towns reached 1,470,000, 340,000 more than at the end of 1981.

In 1982, the annual wages of workers and staff members in the country totalled 88.2 billion yuan, a rise of 7.6 per cent over 1981. The total for state-employed workers was 70.9 billion yuan, up 7.4 per cent, and for collectively employed workers in cities and towns, 17.3 billion yuan, an increase of 8.1 per cent. Of the total annual wages of workers and staff members in the country, bonuses and payments for work above quotas totalled 10.9 billion yuan, an increase of 19.8 per cent over the previous year.

The average annual monetary wage for workers and staff members in the country was 798 yuan, an increase of 3.4 per cent over 1981. Of this, the average annual monetary wage for workers and staff members in state-owned units was 836 yuan, 3 per cent above the previous year; that for workers and staff members of collective units in cities and towns was 671 yuan, up 4.5 per cent.

Safety conditions at work improved in 1982. The number of deaths of workers and staff members on duty decreased 4.1 per cent from 1981 and the number of seriously injured workers and staff members dropped 3.5 per cent.

The total amount of savings deposits in the urban and rural areas was 67.54 billion yuan by the end of 1982, or 29 per cent more than at the end of the previous year. About half of the total savings deposits were long-term deposits of three years and more.

In 1982, housing projects completed by state-run and collective units in cities and towns totalled 117.9 million square metres, 20.21 million square metres more than in the previous year. Houses built by rural commune members comprised about

600 million square metres, the same as in the previous year. In many rural areas, because of a lack of overall planning and strict control of housing construction, there was still the serious problem of excessive use of cultivated land.

With the development of the national economy, programmes were strengthened to support those aged, disabled, widowed and orphaned whose livelihood was not assured. The number of those supported by the rural collective economy reached 2,688,000, a 3.6 per cent increase over the previous year. Of these, old people in homes for the aged numbered 138,000, an increase of 20 per cent over 1981. There were 864 social welfare institutes and children's welfare institutes in cities and towns, providing care for 62,000 people.

The main problems for the people's living standards are: Some enterprises still issued excessive bonuses and subsidies; some people with low income still have a rather difficult life; housing for a portion of workers and staff members is still fairly crowded.

10. POPULATION

Population by the end of 1982 was 1,015,410,000, which was 14,690,000 more than the previous year's figure of 1,000,720,000.*

According to a sample survey of 556,188 people drawn at random from 3,503 production teams (residence groups) in 1,057 people's communes (streets) of 312 counties (cities) of 29 provinces, municipalities and autonomous regions, the birth rate was 21.09 per thousand, the mortality rate was 6.60 per thousand and the natural growth rate was 14.49 per thousand.

(Note: *None of the figures in the communique include those for Taiwan Province.*)

* Figures for the population of 1981 and 1982 include that for servicemen.

COMMUNIQUE ON THE MAIN STATISTICS FROM THE 1982 POPULATION CENSUS

Issued by the State Statistical Bureau of
the People's Republic of China

October 27, 1982

In accordance with the decision made by the Central Committee of the Communist Party of China and the State Council, China carried out its third population census. The nationwide enumeration of the population started on July 1, 1982 after a preparatory period which began towards the end of 1979. Under the unified leadership of the Party committees and people's governments at all levels and with the enthusiastic support of the people of all nationalities and the thoroughgoing and painstaking work of the census workers, the work of the census was completed by July 10 except for in a number of flooded areas where the work was delayed slightly. The verification was completed before the end of July. The post-enumeration sample check verifies that the work was of high quality. All the data gathered is being processed by computers. The following are the main figures tabulated manually:

1. *Total Population.* China has a population of 1,031,882,511.

The population of the 29 provinces, municipalities and autonomous regions on the mainland, including members of the armed forces, is 1,008,175,288. (Excluded from this figure is the population of Jinmen, Mazu and other islands of Fujian Province. The same applies to figures listed below.) With zero hour, July 1, 1982 as the reference time, face-to-face interviews

were conducted in all places except for a small number of areas in the Tibet Autonomous Region where transportation is extremely difficult and figures (28,601 persons) were estimated according to administrative records.

The population of Taiwan Province, Jinmen, Mazu and a few other islands of Fujian Province was calculated according to figures released by Taiwan authorities.*

The population of compatriots in Hongkong and Macao was calculated according to figures released by the Hongkong and Macao authorities.**

According to the methods of the Third National Census promulgated by the State Council, people included were citizens of the People's Republic of China residing in the country. Therefore, overseas Chinese have not been included.

As compared with 694,581,759, the figure of zero hour, July 1, 1964 released by the second national population census, the population of 29 provinces, municipalities and autonomous regions, including members of the armed forces, has increased by 313,593,529 people or 45.1 per cent in 18 years, an average annual increase of 17,421,863 people or 2.1 per cent.

2. *Sex Composition.* Of the population of 29 provinces, municipalities and autonomous regions and the armed forces, males number 519,433,369, accounting for 51.5 per cent, and females, 488,741,919, accounting for 48.5 per cent, the proportion of males to females being 106.3 to 100.

3. *Population of the Nationalities.* The Han nationality population in the 29 provinces, municipalities and autonomous

* The population of Taiwan is reported according to figures published by the Taiwan authorities at the end of June, 1982; the population of Jinmen and Mazu and a few other islands of Fujian Province is reported according to figures released by the Taiwan authorities at the end of May 1982.

** The population of compatriots in the Hongkong region is calculated according to figures released by the Hongkong authorities at the end of June, 1982 and the population of compatriots in the Macao region is calculated according to census figures of 1981 released by the Macao authorities.

regions is 936,703,824, accounting for 93.3 per cent of the total; the minority nationalities population is 67,233,254, making up 6.7 per cent.

Compared with the figure of the second census in 1964, the Han nationality population has increased by 285,407,456, or 43.8 per cent, and the population of the minority nationalities has increased by 27,309,518, or 68.4 per cent.

Of the 55 minority nationalities in the 29 provinces, municipalities and autonomous regions, those with a population of more than one million have increased from 10 in the 1964 census to the present 15.

4. *Educational Level of the Population.* Among the population of the 29 provinces, municipalities and autonomous regions, 4,414,495 are university graduates and 1,602,474 others have attended university (including both those who studied but did not finish and those now attending university). People with a senior middle school education number 66,478,028, and 178,277,140 people have a junior middle school education level. There are 355,160,310 people with a primary school education. The figures in these three categories refer to graduates, those who attended school previously but did not finish, and those who are presently enrolled.

Compared with the 1964 census figures, the following changes have occurred for every 100,000 people:

Those with university education have increased from 416 to 599;

Those with senior middle school education have increased from 1,319 to 6,622;

Those with junior middle school education have increased from 4,680 to 17,758; and

Those with primary school education have increased from 28,330 to 35,377.

Illiterates and semi-literates (people 12 years of age and above who cannot read or can read only a few words) in the 29 provinces, municipalities and autonomous regions number 235,820,002. Compared with the 1964 census figure, the per-

centage of illiterates and semi-literates in the total population has dropped from 38.1 per cent to 23.5 per cent.

5. *Birthrate and Mortality Rate.* The number of births in 1981 in the 29 provinces, municipalities and autonomous regions was 20,689,704 with a birthrate of 20.91 per thousand. The number of deaths in 1981 was 6,290,103 with a mortality rate of 6.36 per thousand. The natural increase in the population in 1981 was 14,399,601, a rate of 14.55 per thousand.

6. *Population of Cities and Towns.* In the 29 provinces, municipalities and autonomous regions, the total population in cities (excluding rural population of counties under their administration) and towns is 206,588,582, of which 144,679,340 are in 236 cities and 61,909,242 are in 2,664 towns. Compared with the 1964 census figure, the population of cities and towns has increased by 79,485,541 or 62.5 per cent. The proportion of the total population residing in cities and towns has increased from 18.4 per cent in 1964 to 20.6 per cent.

7. *The Distribution of Population by Area.* The population distribution in the provinces, municipalities, autonomous regions, and members of the armed forces is as follows:

| | |
|---|------------|
| Beijing | 9,230,687 |
| (including the population of the five counties under the direct administration of Beijing, 3,632,715) | |
| Tianjin | 7,764,141 |
| (including the population of the five counties under the direct administration of Tianjin, 2,621,576) | |
| Hebei Province | 53,005,875 |
| Shanxi Province | 25,291,389 |
| Inner Mongolian Autonomous Region | 19,274,279 |
| Liaoning Province | 35,721,693 |
| Jilin Province | 22,560,053 |
| Heilongjiang Province | 32,665,546 |
| Shanghai | 11,859,748 |

(including the population of the 10 counties under the direct administration of Shanghai, 5,538,876)

| | |
|--|------------|
| Jiangsu Province | 60,521,114 |
| Zhejiang Province | 38,884,603 |
| Anhui Province | 49,665,724 |
| Fujian Province | 25,931,106 |
| (including the population of Jinmen and Mazu and a few other islands, 57,847) | |
| Jiangxi Province | 33,184,827 |
| Shandong Province | 74,419,054 |
| Henan Province | 74,422,739 |
| Hubei Province | 47,804,150 |
| Hunan Province | 54,008,851 |
| Guangdong Province | 59,299,220 |
| (The figures for the population of the Dongsha Islands and Nansha Islands are not included for the time being) | |
| Guangxi Zhuang Autonomous Region | 36,420,960 |
| Sichuan Province | 99,713,310 |
| Guizhou Province | 28,552,997 |
| Yunnan Province | 32,553,817 |
| Tibet Autonomous Region | 1,892,393 |
| Shaanxi Province | 28,904,423 |
| Gansu Province | 19,569,261 |
| Qinghai Province | 3,895,706 |
| Ningxia Hui Autonomous Region | 3,895,578 |
| Xinjiang Uygur Autonomous Region | 13,081,681 |
| Taiwan Province | 18,270,749 |
| Hongkong and Macao regions | 5,378,627 |
| Members of the armed forces | 4,238,210 |

8. *Results of the Sampling Check on the Quality of the Enumeration Work.* A post-enumeration sampling check was made after the completion of enumeration and the verification work in the 29 provinces, municipalities and autonomous regions according to the Regulations Governing the Sampling Check on the Quality of the Enumeration Work.

The results are:

Coverage: overcount 0.71 per thousand, undercount 0.56 per thousand, net overcount 0.15 per thousand;

Error rate in reporting sex: 0.03 per thousand;
Error rate in reporting age: 6.15 per thousand;
Births in 1981, net undercount 1.83 per thousand; and
Deaths in 1981, net undercount 4.40 per thousand.

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CHINA'S SOCIALIST MODERNIZATION

In 1977 China entered a new historical period of socialist modernization. This book, written by economic specialists and edited by Yu Guangyuan, China's leading economist, provides a comprehensive review of the country's recent economic development (1977-1980).

The book's twelve chapters begin with an outline of China's economic development, and cover the recent restructuring of the economy. Other chapters explain how this applies to various sectors of the economy, such as agriculture, finance, industry and transport. Also included are discussions of urban employment and wages, science and technology, and economic relations with foreign countries.

The book's appendices provide the texts of the Communiques on the Fulfilment of China's 1981 and 1982 National Economic Plans and the Communiqué on the 1982 Population Census Statistics issued by the State Statistical Bureau of the People's Republic of China.

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